MANCHESTER 1824
The University of Manchester

FINANCIAL STATEMENTS 2018

FOR THE YEAR ENDED 31 JULY 2018

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Pro-Chancellor
Mrs Gillian Easson, MA,FRSA

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Mr Edward M Astle, MA, MBA

Deputy Chair of the Board of Governors
Dame Susan Ion OBE, BSc, PhD, FREng, FRS, FIMMM, FINucE (until 31 Aug 2018)

Dr John Stageman, OBE, PhD, CChem, FRSB (from 1 September 2018)

Registrar, Secretary and Chief Operating Officer
Mr Will Spinks, BSc, Chartered MCIPD (until 30 September 2018)

Mr Patrick Hackett BArch (from 1 October 2018)

Director of Finance
Mr Stephen Dauncey BSc, FCCA

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Teaching, Learning and Students
Professor Clive Agnew, BSc, PhD

Research
Professor Colette Fagan, BA, MSc, PhD, FAcSS

Social Responsibility
Professor James Thompson

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Professor Peter Clayton BSc MB ChB, MD, MRCP, FRCPCH Interim Vice-President and Dean (from 1 August 2018)

Professor Graham M. Lord MA, MB BChir, PhD, FRCP (from early 2019)

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Chair of Finance Committee
Dr John Stageman, OBE, PhD, CChem, FRSB

Chair of Remuneration Committee
Mr Gary Buxton, MBE, BA (Hons) MIoD (from 18 April 2018)

Chair of Nominations Committee
Mrs Gillian Easson, MA, FRSA

Chair of Staffing Committee
Mr Paul Lee, DL, MA, LLM, (from 1 December 2017)

MEMBERSHIP OF THE BOARD OF GOVERNORS

From 1 September 2018

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Miss Fatima Abid, BSc (Hons), *General Secretary of the Students' Union*

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Mrs Ann Barnes BA (Hons), Diploma IHM
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Mrs Bridget Lea, BA (Hons)
Mr Paul Lee, DL, MA, LLM
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Mr Robin Phillips, BA (Hons)
Mr Andrew Spinoza, BA, MCIPR
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Mr Richard Solomons, BA (Econ) (Hons), ACA
Mrs Alice Webb, M.Eng, Hon DA

Category 3, members of the Senate (7)

Professor Aneez Esmail, PhD, MRCGP, MFPHM, FRCP
Professor Danielle George, MBE, BSc, PhD , FIET
Dr Reinmar Hager, MSc, PhD
Dr Steven Jones, PhD, PFHEA
Professor Silvia Massini, Laurea, MSc, PhD
Professor Nalin Thakkar, BDS, MSc, PhD, FRCPath
Dr Delia Vazquez, B.A. Hons, MPhil, PhD

Category 4, members of staff other than academic or research staff (2)

Mr Shumit Mandal, BSc
Ms Rosalyn Webster, BA MA

The following were members of the Board of Governors in the previous academic year, to the dates shown:

Dapo Ajayi, B. Pharm, MRPharmS (31 August 2018)
Professor Colette Fagan, BA, MSc, PhD, FAcSS (31 August 2018)
Dame Susan Ion, OBE, BSc, PhD, FREng, FRS, FIMMM, FINucE (31 August 2018)
Dr Caroline Jay BA, MSc, PhD, CPsychol (31 August 2018)
Ms Isabelle Perrett, MA (31 August 2018)
Dr Dame Angela Strank, DBE, BSc, PhD, Ceng, FREng, FIChemE, HonFEI (31 August 2018)
Mr Alex Tayler, BA (30 June 2018) *General Secretary of the Students' Union*

Chair's foreword

In a difficult year for the whole higher education sector, the University continued to make strategic progress but our financial performance deteriorated compared to the previous year.

It continues to be a testing time for British universities. Their financing is under scrutiny, with the Review of Post-18 Education and Funding, launched by the government in February, seeking answers to questions around choice, access, value for money and skills provision.

Economic conditions have also been extremely difficult. Brexit continues to be a source of uncertainty, competition is increasing globally and tuition fees have been frozen for a further year, putting pressure on funding. We have seen particular difficulties in relation to the funding of pensions, with some staff taking industrial action in protest at proposed changes.

As you will see on the pages that follow, the University reported a drop in its underlying operating surplus, owing to income levels being below expectations and ongoing challenges to operating costs. Some actions have already been taken, and others are in hand, to bring our operating surplus back to our target range of 5–7% of income. This is essential for our ongoing investment and the University's sustainability.

At the same time, the University continued to make progress against many of the strategic priorities set out in its Manchester 2020 vision. There were local and international successes in research, a strong level of undergraduate applications, and national recognition for our social responsibility initiatives, as outlined in the President and Vice-Chancellor's review. The University's social and economic importance to the region and the nation, along with its growing portfolio of global programmes and partnerships, illustrate its continued impact and focus on the future. On behalf of the Board of Governors I would like to thank the President and Vice-Chancellor, the Senior Leadership Team and all academic and support staff for their ongoing dedication.

In addition to the highest calibre of strategic leadership and financial management, the University can count on robust governance. This year saw the University continue its rigorous approach to senior remuneration and performance evaluation, and fully comply with the HE Senior Staff Remuneration Code – you can read our Remuneration Committee's report in this publication. The Board has continued to make progress in implementing recommendations from the external review of governance effectiveness which was completed in 2016/17, resulting in enhancements to Board practice. This work has included a review of the University's governing instruments, which will conclude in 2018/19. We also refreshed our Board's membership with four new lay members.

With these leadership, financial management and governance structures in place, I am confident that the University can respond to the present climate and pressures, deliver its strategic objectives and continue to bring benefits locally, nationally and internationally.

Edward M Astle
Chair of the Board of Governors and Pro Chancellor

These financial statements cover a challenging year for all UK universities. Amid increasing external pressures and competition, we saw a fall in our operating surplus. We continue to invest in our strategic priorities, but we must address the level of our surplus to ensure the sustainability of our University.

President and Vice-Chancellor's review of the year

Even by recent standards, 2017/18 was an eventful year for the higher education sector. Universities were under stronger scrutiny than ever, with significant media coverage and political debate relating to value for money. The financing and sustainability of the sector's defined-benefit pension schemes was a major concern too.

In February, the government announced the Review of Post-18 Education and Funding to examine questions of choice, access, value and skills provision in the sector. In this context, positive news – such as the Russell Group report that showed its 24 member universities generated almost £87 billion gross value added for the UK economy in 2015/16 – was sometimes lost.

The government's freezing of undergraduate home tuition fees for a further year added to the uncertainty that the sector has been facing. Questions about the impact of Brexit on universities persisted, though there was some reassurance with the announcement that British researchers will continue to have access to Horizon 2020 funding and that the UK will still participate in the Erasmus programme up to 2020. Progress on citizens' rights was also welcome, as was the clarification that EU students starting their course in 2019 (ie the first intake after Brexit) at universities in England will continue to be treated the same as home students.

Across the sector, pension funds that offer an element of defined benefit continued to come under financial pressure, with both deficits and the projected costs of future benefits increasing significantly, in spite of additional payments by employers and employees. Many universities, including our own, saw industrial action by University and College Union (UCU) members in protest at the proposed changes to the Universities Superannuation Scheme (USS) pension scheme. I know that this decision will not have been taken lightly and I thank our staff and students for the respectful way in which the vast majority of them conducted themselves during the industrial action.

The UCU and Universities UK agreed to set up a joint expert panel to explore challenges relating to the USS, while we worked with our Students' Union to ensure funds from pay deductions due to industrial action were used for the benefit of our students. In the meantime, a consultation opened for members of the University of Manchester Superannuation Scheme (UMSS), which also faces major financial challenges. For both schemes, communication between all parties remains key as we seek to find ways forward.

It was also a year of organisational change. As examples, we established University of Manchester Worldwide as the vehicle for the University's expansion of distance and blended learning. We also gained approval to change the structure of the Faculty of Science and Engineering from nine Schools to two, a change intended to raise the quality of all academic activities, build new collaborations and help to simplify and standardise processes.

Financially, it was a challenging year for the University. As in previous years, our overriding financial imperative was to consolidate the financial position of the University by generating an operating surplus, which is essential for ongoing investment. These financial results show an underlying operating surplus of £25.1 million (2.4% of income), compared to £63.9 million (6.3%) last year. This is due to income levels being below expectations and ongoing challenges to our operating costs.

Our aim to deliver an operating surplus in the 5–7% range of our income underpins our financial strategy. The uncertainty that exists in financial markets has led to significant volatility in investment returns and pension liabilities. The impact of this is explained in the financial overview.

These are difficult times and I would like to thank colleagues across the University – in particular, the Director of Finance and his team, and staff involved in all of our change projects – for their continuing efforts.

There was better news in many areas, particularly in relation to our core goals of world-class research, outstanding learning and student experience, and social responsibility.

In research, it was pleasing to see the 2018 Academic Ranking of World Universities, published shortly after this reporting period, place us at 34th – our highest-ever position. We also achieved our best-ever place – 29th – in the QS World University Rankings, and rose one position in the *Times Higher Education* global ranking. We were ranked seventh in Europe in Reuters' Top 100 Most Innovative Universities, while we received two national awards from Understanding Animal Research for our sector-leading transparency.

Research grant and contract income, including research capital income, was £298.7 million, a growth of 14% compared to the previous year. A number of significant funding awards were received by the University. Among the highlights were a £13.3 million core award for our Cancer Research UK Manchester Institute, £7.5 million from the Science and Technology Facilities Council for the eMerlin/VLBI National Facility, £5.8 million from the National Institute of Health Research for the Greater Manchester Patient Safety Translational Research Centre and almost £4.3 million from the Economic and Social Research Council and the Global Challenges Research Fund for the Dams 2.0 project on the social and environmental impacts of dams. We also welcomed significant investment from Innovate UK to support our collaborative work in fighting disease and from the Industrial Strategy Challenge Fund to research the use of AI in nuclear waste clear-up.

On a regional level, we had cause for celebration when Manchester joined the UNESCO global network of cities of literature in a process led by colleagues in our School of Arts, Languages and Cultures, and partners across the city. We also submitted a bid in collaboration with Manchester Science Partnerships, the Greater Manchester Combined Authority and other regional partners for 'Strength in Places' funding from the government, which would be used to bring economic benefit from our strengths in health, engineering and physical sciences.

It was a busy year for each of our research beacon areas and we started to see these gain traction among key audiences, as demonstrated by responses to our external stakeholders survey. In advanced materials, we announced our first industrial partnerships for the Graphene Engineering Innovation Centre, as well as a collaboration between our National Graphene Institute and the National Physical Laboratory on standards to aid commercialisation. We hosted a conference at the Henry Royce Institute, the UK's national institute for materials science research and innovation, to shape national strategy, while the first running shoes to incorporate graphene hit the market.

In the area of energy, the interdisciplinary and collaborative nature of our work was particularly evident. Our researchers established the Beam Network, a revolutionary new approach to nuclear-related research which will encourage engagement between our nuclear and social scientists, while the latter launched the EU Energy Poverty Observatory, a new project aiming to examine energy poverty. Among our highlights in the global inequalities field was Be//Longing, a multimedia production that saw our Manchester Migration Lab collaborate with a local theatre company.

Our successes in cancer included a new method to identify men with locally advanced prostate cancer who are less likely to respond well to radiotherapy. In industrial biotechnology, breakthroughs included a synthetic yeast strain that can be transformed on demand, with implications for treatment of malaria and tuberculosis and the future study of DNA, and the discovery of a new enzyme that will make a drug for Parkinson's disease cheaper and quicker to produce.

In other developments, we played a key role in the Industrial Strategy Commission's report to government and signed a contract to establish the Thomas Ashton Institute of Risk and Regulatory Science, in partnership with the Health and Safety Executive and Laboratories. Global diagnostic company QIAGEN announced that it will expand its research and development base in Manchester, enabling new collaborations with the University in genomics, diagnostics and precision medicine.

We launched the Manchester China Institute, supported by a £5 million gift from Dr Lee Kai Hung, an honorary graduate of the University and a prominent businessman in Greater Manchester and Hong Kong. We also established Creative Manchester, a major strategic project led by the School of Arts, Languages and Cultures that aims to position our University as a leading player in the creative sector at local, national and international level.

Turning to teaching, learning and the student experience, it was pleasing to see that we remained the most popular university in the UK for undergraduate applications, according to UCAS figures. We retained our position as the most targeted university for the UK's top graduate employers, as reported by High Fliers Research, while HESA data for 2017 showed that 93.2% of our graduates headed straight into employment or further study. It was also encouraging to see that a new ranking from *Times Higher Education* of teaching excellence placed us seventh in Europe.

In the National Student Survey, we achieved an 83% satisfaction rate with a completion rate of 50% which is only just at the level required for reporting. We know that some students planned to boycott the survey and we accept that many of the pressures facing the sector over the year, particularly industrial action, impacted our students.

We continue to work hard to improve our performance in student satisfaction and other measures of success. Indeed, progress continues on our Student Lifecycle Project, which aims to improve our service to students and significantly reduce administrative burden. A bid to HEFCE for £150,000 to improve our mental health and well-being support for postgraduate researchers was successful.

As part of our Stellify initiative, which gives Manchester students the chance to take part in a range of activities alongside their degree, all new undergraduates were invited to take part in the ethical grand challenges programme in their first week. This was a fantastic undertaking by almost 5,000 new students but also by the many staff and volunteers who organise the event.

Our students achieved so many great things in 2017/18 that it's impossible to list them all here. Highlights include the role of law students in winning an unfair dismissal case on behalf of workers in Lancashire, the victorious young mechanical engineers who presented an affordable prosthetic limb at the Industry 4.0 Summit and Factories of the Future Expo, and Farhana Choudhury's prize in the international Undergraduate Awards for her research into literacy as a vehicle for change for women in Afghanistan and Nepal.

Our other core goal is social responsibility. I was delighted when two of our flagship initiatives, 10,000 Actions and the Sustainability Challenge, collectively won a national Green Gown award. Another of our unique programmes, The Works, celebrated a huge milestone when it helped its 4,000th local unemployed person back into work – a superb example of our value to our region.

The University's commitment to social responsibility is cited by our Chancellor Lemn Sissay as one of the reasons he wanted to join us. He demonstrated this in his own inimitable style with a poem that was turned into a short film. You can read or watch the poem at: www.manchester.ac.uk/lemn-sissay-making-a-difference

It was another successful year for our cultural institutions, which welcomed more than 1.3 million visitors in total. Among the most high-profile guests at Jodrell Bank was the Prime Minister, who attended in part to celebrate the major award from the Heritage Lottery Fund for a new gallery at the Discovery Centre, but also to give a major speech on science and innovation. Famous names from music, art and science were also welcomed as the Observatory provided the backdrop for the third annual bluedot festival, welcoming 18,000 visitors. Earlier in the year, Jodrell Bank was proposed to UNESCO as the UK's next candidate for World Heritage Site status.

We also engaged with the public through our second annual Community Festival, bringing 2,400 of our local neighbours on to campus. ScienceX ran once again at the Intu Trafford Centre and we welcomed 400 local primary schoolchildren to the University as part of the Great Science Share. The University was also one of 80 locations across Manchester taking part in the Bee in the City public art event.

Our Campus Masterplan continued apace. Among the significant milestones were Brunswick Park, where most of the work is now complete, and the topping-out ceremony for the Graphene Engineering Innovation Centre. Work continues on the vast Manchester Engineering Campus Development and our colleagues have done outstanding work in keeping our Fallowfield residential development on track after the collapse of our main contractor.

Looking ahead, we received approval from our Board of Governors to begin an international search for a partner to develop our North Campus into a mixed-use innovation district. A world-class cancer research facility is to be built on the site of the Paterson building, led by The Christie on behalf of the Manchester Cancer Research Centre. We were also boosted by the news of a £4.2 million Heritage Lottery Fund award to expand Manchester Museum as we seek to create the UK's most imaginative and inclusive museum.

We celebrated a wide range of anniversaries over the course of the year, from the 80th anniversary of Alan Turing joining the University to the 60th year of development studies. It was the 70th anniversary of the NHS and the 100th of British women getting the vote, historic moments in which University staff, students and alumni played a huge part.

Now, as then, our people remain integral to all we do. In response to themes emerging from our staff survey, we invested in staff development. One example of this was Investing in Success, a fantastic opportunity for colleagues to apply for up to £10,000 of funding to support their personal and professional development. We also recruited 100 outstanding early-career researchers via our Presidential Fellowships programme.

It was also very pleasing to learn of our rise from 41st to 16th in Stonewall's annual audit of workplace culture for lesbian, gay, bi and trans staff – making us the joint highest ranking English university and top across all Greater Manchester employers.

We celebrated news that Professor Richard Marais, Director of the Cancer Research UK Manchester Institute, and Dame Angela Strank, Chief Scientist at BP and former member of our Board, were elected Fellows of the Royal Society, while Professor Jorgen Vestbo was elected to the Academy of Medical Sciences. The British Academy elected Professors Georgina Waylen, Alan Warde and Elena Lieven. Professor Bina Agarwal was recognised in the gender studies category of the Balzan Prize, while Professors Vikas Shah, Jeanette Winterson, Jaswinder Singh Bamrah and Donal O'Donoghue all received national honours.

The University has its own prize – the Medal of Honour – which is given to individuals who have made an outstanding contribution to the University and beyond. We bestowed this honour on Professor Nic Jones, for his outstanding science and developing the Manchester Cancer Research Centre, and to Dr Maria Balshaw, Director of the Tate and former Director of the Whitworth and Manchester Art Gallery.

We were sorry to bid farewell to a number of valued staff. Among these, Dr Nick Merriman left his role as Director of the Manchester Museum, while Professor Ian Greer, Vice-President and Dean of the Faculty of Biology, Medicine and Health, announced he would be joining Queen's University as Vice-Chancellor. Our Registrar, Secretary and Chief Operating Officer Will Spinks announced he will be retiring early in the next academic year. They will all be missed.

I was delighted, however, to welcome Alistair Hudson, who joined us from the Middlesbrough Institute of Modern Art, as Maria's replacement, and Esme Ward, who was Head of Learning Engagement at Manchester Museum and the Whitworth, as Nick's. I also look forward to welcoming Patrick Hackett and Professor Graham Lord, who are replacing Will and Ian respectively.

On the subject of looking forward, we have spent a good deal of this year planning a comprehensive programme of engagement with our staff, students, alumni and key stakeholders on the future vision for our University. As we approach 2020, it is time to consider our history and achievements, and ask bold questions about the type of institution we want to be as we enter our next chapter.

As these financial statements show, we must continue to be shrewd in how we manage the challenges of today and be brave in how we prepare for our future.

Professor Dame Nancy Rothwell
President and Vice-Chancellor

Key performance indicators

Growth in research expenditure[1] 5.4%

Total audited research expenditure in 2016/17 (latest available figure) was £533.2m, an increase of 5.4% on the previous year.

Growth in international student income of £7.4m

International student fee income (full and part-time) increased by £7.4m (3.5%) during 2017/18.

External borrowing decreased to 38.1%

External borrowing as a percentage of income has reduced from 40.4% to 38.1%.

Operating surplus[2] is 2.4%

Operating surplus as a percentage of income decreased from 6.3% in 2016/17 to 2.4% in 2017/18 on a like-for-like basis.

[1] Total audited research expenditure is defined as research expenditure as calculated in the University's Transparent Approach to Costing (TRAC) return.

[2] Operating surplus is taken as the surplus reported, adjusted for actuarial gains in respect of pension schemes, capital income, depreciation and gains on investments (see page 14).

The year in pictures

Image by Jill Jennings

1. Maxine Peake becomes honorary professor
One of the nation's favourite actresses, RADA-trained Maxine Peake joined our Faculty of Humanities as an honorary professor in January.

2. Medical student gains recognition from Prime Minister
Rathaven Gunaratnarajah, a Manchester medical student, was named as a Point of Light by Theresa May for setting up his own charity to deliver life-saving medical equipment to developing nations.

3. The Works reaches landmark
David Seville from Middleton became the 4,000th local unemployed person to be supported back into work by the University's employment initiative, The Works, in January.

4. Be//Longing brings research and performance together
The University of Manchester's Migration Lab researchers collaborated with the award-winning Take Back Theatre collective on Be//Longing, an immersive production exploring perceptions of migration.

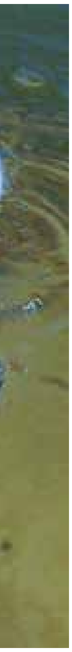
Image by Dr Cathy Wilcock

5. Manchester leads hub of AI and nuclear expertise
The Robotics and Artificial Intelligence for Nuclear (RAIN) Hub, a new multimillion-pound robotic and artificial intelligence (AI) programme, was announced in November. Researchers at the University's Dalton Nuclear Institute will lead colleagues from Oxford, Liverpool, Sheffield, Nottingham, Lancaster, Bristol and the UK Atomic Energy Authority with the aim of cleaning up the world's nuclear waste.

6. World-class cancer centre to open in Manchester
A world-class cancer research facility is to be built on the site of the Paterson building, led by The Christie on behalf of the Manchester Cancer Research Centre.

7. Manchester China Institute launches
The Manchester China Institute launched at the University in May, set up with the generous support of Hong Kong businessman, philanthropist and honorary Manchester graduate Dr Lee Kai Hung.

8. Purple Wave
The 2,300 University of Manchester staff, students and alumni who took part in the SimplyHealth Great Manchester Run in May raised £28,000 for worthy causes. The runners became a Purple Wave, each donning the University's purple shirt to complete the race.




7


Image by Matt Wilkinson
FAST PACED CLUB
SPORT
Simplyhealth
LEWIS
13719
MANCHESTER
CHRIS
291
13042
14912
MANCHESTER

9. Community welcomed on to campus
In June we held our second annual Community Festival, inviting our neighbours behind the scenes to find out all about our work and get hands-on with a variety of exciting activities.

10. Prime Minister visits Jodrell Bank
The Prime Minister Teresa May delivered a major speech on science technology and confirmed funding for a spectacular new gallery at Jodrell Bank in May. Earlier in the year, Jodrell Bank had been put forward to UNESCO as the UK's nomination for World Heritage Site status.

11. The world's first graphene running shoes
The world's first-ever sports shoes to utilise graphene – the strongest material on the planet – were unveiled in June by the University and British brand inov-8.

12. World-leading precision-medicine campus proposed
Proposals were unveiled in July for a precision-medicine campus on the Corridor Manchester Enterprise Zone. This collaboration between Health Innovation Manchester and QIAGEN will fast-track health benefits to the region, and ultimately nationally and internationally, through access to new tests and targeted treatments developed through pioneering research.


12
Citylabs 2.0


Image by inov-8
11
inov-8

Financial review

Operational and financial overview

The University of Manchester has exempt charity status derived from the Charities Act 1993 and is responsible to the Office for Students, its principal regulator, which is charged with monitoring compliance with charity law obligations. The University, through its governing body, the Board of Governors, is aware of its responsibilities as a charity to act for the public benefit across all its activities and has had due regard to the latest version of the Charity Commission's public benefit guidance (issued September 2013, updated September 2014). The objects of the University, as set out in the Royal Charter awarded in 2004, are "to advance education, knowledge and wisdom by research, scholarship, learning and teaching, for the benefit of individuals and society at large." This overview includes references to the impact of our investments in these areas. These statements form our public benefit statement.

Total comprehensive income has increased from £94.9m to £102.2m. The impact of actuarial gains from our UMSS and GMPF pension schemes is reflected in these figures, with a total of £59.2m gain this year, compared to £31.4m in the prior year. Excluding the effect of these accounting adjustments, the 2017/18 surplus of £43.1m, is £20.5m lower than in 2016/17 demonstrating that this has been a challenging year.

A key measure of our financial sustainability is our cash position, which is closely managed as part of our financial performance and planning process. The cash generated by operating activities has declined and the cash and other liquid funds balance has reduced by £70.3m in line with expectations, with the main driver being the planned investment in our estate. We expect this investment to continue for a further two years, as we complete a number of large projects including Manchester Engineering Campus Development and Alliance Manchester Business School.

Financial overview and key highlights

Key Highlights	2017/18 £000	2016/17 £000	2017/18 change %
Income excluding capital income	975,606	957,702	1.9%
Capital income *	83,554	51,294	62.9%
Total income	**1,059,160**	**1,008,996**	**5.0%**
Tuition fee income	**462,845**	**449,172**	**3.0%**
Research income excluding capital	241,211	237,888	1.4%
Research capital income	57,503	24,229	137.3%
Total research income	**298,714**	**262,117**	**14.0%**
Operating surplus (see next table)	**25,060**	**63,889**	**(60.8%)**
Operating surplus as % of income	2.4%	6.3%	
Reported total comprehensive income**	**102,225**	**94,906**	**7.7%**
Net assets	1,716,768	1,614,543	6.3%
Cash and short term investments	315,284	385,616	(18.2%)
Operating cashflow	92,254	93,856	(1.7%)
Tangible fixed assets	1,656,531	1,506,070	10.0%
Heritage assets	257,239	256,039	0.5%
Pension deficit	(221,669)	(285,716)	(22.4%)
Borrowings	(403,663)	(407,469)	(0.9%)

**Capital income relates to funding received for capital expenditure. Capital income can be either HEFCE/OFS, Research, or other funded.*
*** Total comprehensive income is the surplus for the year plus the actuarial gain in respect of pension schemes.*

Stephen Dauncey,
Director of Finance

Key Financial Risks

Home tuition fees are under review and there are barriers to international fee growth

There is significant risk to the sector in relation to undergraduate fees and numbers. The Augar review of post-18 education may impact on tuition fee income across the sector. We expect home undergraduate fees to remain at £9,250 in the short term, in line with our financial plans. The major risks to our plans to grow international student fee income are dependence on tuition fee price growth; reliance on postgraduate taught students and the political climate surrounding the immigration status of students.

Pensions uncertainty may result in additional cost and industrial action

There is uncertainty about pension obligations, in particular for the USS pension scheme, where there is likely to be an increase in contributions and a revised deficit valuation. These changes would result in a one off non-cash impact on the surplus. It is likely that this will be reported in 2018/19 but it will not be recognised until a value can be calculated based on an agreed contract. The proposed changes in pension contributions and benefits have resulted in industrial action during 2017/18. The risk of future industrial action remains.

Given the impact and volatility on pensions on the University's risks and financial performance a detailed explanation is provided below.

Staff costs must be managed and balanced with income growth

The University has limited influence over the continued growth in wages and salaries, as this is driven by contractual increments and the national pay award. Staff costs must be managed in an environment where income growth is challenging. Projects to improve the efficiency of teaching, research and support services are being progressed to balance cost growth with income.

Research cost recovery improvements are needed to ensure sustainability

A key factor of our strategy to increase research income is via initiatives to improve cost recovery. This is increasingly difficult to achieve and presents a risk for the sector, with full economic cost pricing proving hard to obtain from funders. Research funding in an increasingly multinational context continues to be highly competitive.

Pensions

The challenge of accounting for pensions, their valuation and management of the associated liabilities presents a significant risk to the sector.

USS pension scheme

This year has seen increased uncertainty in relation to the University Superannuation Scheme (USS) pension scheme, with the University and College Union (UCU) Higher Education committee rejecting a proposal presented by USS, Universities UK and UCU in March 2018. The University currently pays 18% of relevant staff pay costs into the multi-employer scheme. The planning assumptions are that this will increase given the March proposal was based on a 19.3% contribution rate. The rejection of the negotiated changes to the scheme was followed by industrial action by members of the UCU across a number of institutions including the University of Manchester. A Joint Expert Panel (JEP) was established and tasked with assessing the 2017 valuation and agreeing the principles for the future valuation of the USS scheme. The panel reported its conclusions on 13 September 2018 and associated consultations are ongoing.

Due to the ongoing process in respect of the March 2017 valuation, a new Schedule of Contributions has not been agreed at the year end. USS recent announcements indicate that the trustees feel the need to raise the deficit contribution level. The proposed change in employer contributions to meet the deficit is from 2.1% to 6% of relevant staff pay (this is part of the overall contribution figure). There is clearly a risk that the University (and all other participating employers) will become contractually committed to pay a higher employer deficit contribution rate but, under accounting standards, this cannot be accounted for at 31 July 2018 as no contractual commitment is in place. A 1% increase in employer contributions (for whatever reasons) would result in a charge to the University's total comprehensive income of £37.7m.

University of Manchester Superannuation Scheme

The University currently makes contributions of 19.75% of relevant staff pay plus an annual payment of £6m to this scheme which is operated for all staff not eligible to join USS. The annual payment is detailed in a schedule of contributions agreed with the trustees and is designed to address the deficit position. The result of the valuation process as at 31 July 2016 was such that the cost of future accrual was not sustainable and the University has been in consultation with all current and eligible staff members on benefit changes.

This year, our total comprehensive income includes an actuarial gain of £59.2m arising primarily from the year end valuation of the UMSS scheme which was undertaken solely for accounting purposes. This valuation is in accordance with strict requirements under accounting standards which differ from those of the scheme specific triennial actuarial valuation. This gain of £59.2m is made up of £39m for asset returns and £22m arising from changes in assumptions for discount rate, inflation and mortality. Due to the size of the UMSS scheme assets and liability (£608.8m and £741.6m respectively as at 31 July 2018) any percentage swing in assumptions has a material impact. The most significant factors are the discount rate and inflation rate. A movement of 0.1% in either of these assumptions has been estimated to give rise to a £15m movement in the liability.

1. Operating surplus and income review

Operational performance

At an operational surplus level the University's performance again demonstrates the challenging environment for Higher Education institutions. Operating surplus is our key measure of financial performance internally and has declined by £38.8m with a reduction from 6.3% of income to 2.4%. This measure excludes non-cash items which are outside of the University's direct control such as changes in the market value of investments (£12.9m) and actuarial gains and losses related to the UMSS and GMPF pension schemes (£59.2m), capital income (£83.6m) and depreciation (£78.4m) are also removed, as the accounting treatment under FRS 102 can cause significant volatility in the accounts, masking the underlying performance.

The decline in operating surplus is a product of continuing growth in staff costs whilst the external environment prevents a rise in the Home Undergraduate Tuition fee and many research funders will not pay the full costs incurred by the University. Concurrently the University is investing in order to increase and diversify its income streams.

In 2017/18, our staff numbers increased and we are spending a higher proportion of our income on staff costs (54.4% of income excluding capital compared to 53.9% in 2016/17). The University has limited influence over the continued growth in wages and salaries, as this is driven by contractual increments and the national pay award. We have also seen a £4.4m increase in Voluntary Severance costs as a result of our strategic initiatives.

We have also seen an increase in our other operating expenditure from 37.0% to 39.8% of our income (excluding capital), driven in part by a number of strategic investments. These include IT spend of £1.1m to reduce the risk of cyber attacks and to support our students and staff.

Our programme of activities to drive a sustainable financial future is being driven by the University's executive. A number of these projects are focussed on income generation, and include the launch of new transnational education programmes during 2018/19. Research income is being targeted via initiatives to improve cost recovery, however this objective is increasingly difficult to achieve with full economic cost pricing proving hard to obtain from funders. Consequently a cross subsidy is required from international teaching income. Research funding continues to be highly competitive, despite additional UK government funding and European funding. The impact of Brexit remains an unknown but is a major risk to the University on a number of fronts.

The funding landscape in Higher Education changed in April 2018, with the 10 previous public bodies responsible for Higher Education being reduced to two: the Office for Students (OfS) and UK Research and Innovation (UKRI). The responsibility for governance and oversight of funding for higher education, previously held by HEFCE, has been transferred to these new organisations. The Office for Students brings a new perspective to teaching funding, with a regulatory role on behalf of students in addition to being responsible for administering central funding. It is anticipated this will bring an increased focus on value for money, sustainability and competition.

To address these challenges and ensure financial sustainability, we are further developing our programme initiatives to improve efficiency and increase income, using internal and external benchmarking to shape an action plan spanning many areas of our operations.

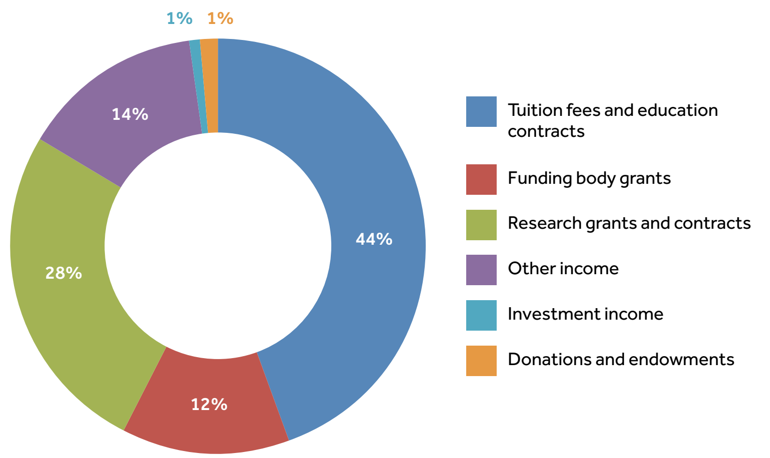
During 2019/20, we will be updating our vision out to 2030, to address the opportunities and challenges higher education and our own University will face in the coming years. As we develop this strategy, we will be putting in place financial plans to support this vision whilst ensuring financial sustainability.

Total income

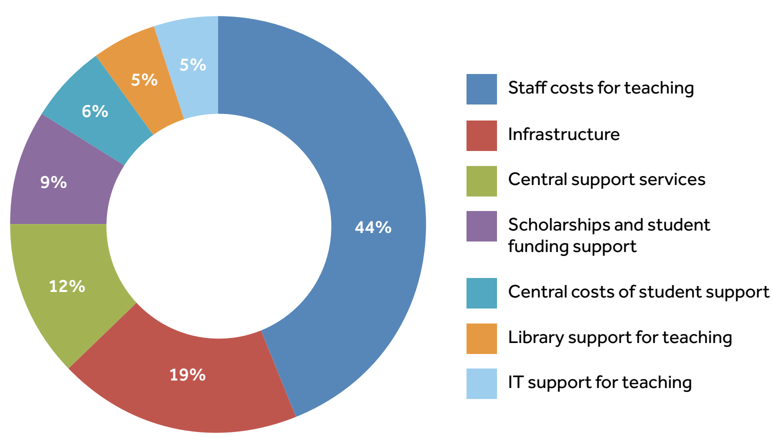
Total income increased to £1,059.2m, a growth of 5%. Excluding capital income of £83.6m, our income growth was £17.9m (1.9%) mainly driven by additional tuition fee income from international students. Our capital income has increased by £32.3m this year due to a number of major capital projects in research including the Henry Royce Institute and the Graphene Engineering Innovation Centre. Our two major sources of income are tuition fees (44%) and research grants and contracts (28%), which is very similar to the ratio in recent years.

Operating surplus	**2017/18 £'000**	**2016/17 £'000**
Total comprehensive income as reported	**102,225**	94,906
Add back:		
Depreciation and amortisation	**78,438**	83,421
Less:		
Capital income	**(83,554)**	(51,294)
Gains on investments	**(12,883)**	(31,784)
Actuarial gain in respect of pension schemes	**(59,166)**	(31,360)
Operating surplus	**25,060**	63,889
Operating surplus as % of total income	**2.4%**	6.3%

2017/18 income split



What is the £9,250 tuition fee spent on?



2. Teaching and Learning

Teaching income

Income from tuition fees has increased by 3.0% to £462.8m in 2017/18. Our full time home/EU tuition fee income remained static with small increases across a wide range of programmes being offset by a reduction in undergraduate intake in the Faculty of Humanities. This is in line with our strategy to raise the quality of our undergraduate students via a higher entry tariff. International tuition fee growth continues to be strong with a 3.5% increase in 2017/18 driven by both increased student intake and fee inflation. A number of part time programmes have seen increases in income this year, in particular the Global MBA and MSc and CPD courses in the Faculty of Biology, Medicine and Health. Income from the Global MBA programme is now reported within the University rather than the University of Manchester Worldwide Ltd subsidiary, resulting in an additional £17.8m of University income. Our desire to diversify income is being supported by our Executive Education Centre, University Language Centre and Centre for Pharmacy Postgraduate Education, which have increased our short course income by £3.6m.

Over the past 12 months, progress has been made in the expansion of online, blended, transnational education through structural changes relating to the University of Manchester Worldwide and the increased utilisation of the global centres. Programmes have now been launched through the Dubai centre in a blended format and routes will be progressed in Asia during 2018/19. This is in conjunction with the development of a number of new programmes which will be designed for various modes of delivery, ahead of launch in 2019/20. New programmes will be aligned with the University's key teaching strengths and Research Beacons.

Teaching value for money

The University is committed to providing clarity about how we use student income to deliver a high quality student experience. This matches the expectation of the Office for Students in holding the sector to account regarding choice, competition, transparency and value for money. Analysis of our 2016/17 income from home and EU undergraduate students shows that almost half of the £9,250 tuition fee (44%) was spent on teaching salaries and administrative support for teaching. A significant proportion (19%) was invested in our estate and buildings to ensure that we have excellent facilities and buildings for learning. Our teaching and learning activities can only be delivered with the support of central services, which account for 12% of the tuition fee. These services include the areas of social responsibility, compliance and risk management, finance and human resources

The remainder of the fee is used to support scholarships and bursaries (9%); centralised students support services (for example, disability support and the careers service) (6%); libraries (5%) and teaching-related IT (5%).

Our analysis shows that the £9,250 tuition fee is being fully utilised for activities relating to undergraduate teaching and learning. Any reduction in the fee would impact on the quality of the teaching and learning experience or would require the University to subsidise our home and EU undergraduate education via other income sources or to make efficiency savings.

Investments in teaching

Our capital masterplan has seen significant investment in our estate to support teaching and learning. The Alliance Manchester Business School (AMBS) and Executive Education Centre are approaching completion and the Manchester Engineering Campus Development (MECD) is progressing well. These projects account for £93.1m of capital expenditure during the year, an investment which will deliver outstanding facilities for teaching and learning. A further £19.3m of our capital spend during 2017/18 was to continue development of our new Fallowfield student residences. A fundamental objective is to improve the student experience. The Fallowfield development is now being completed by Vinci UK who have been appointed to complete the work after the liquidation of the original contractor, Carillion.

We have continued to invest in our Student Lifecycle Project with £14.4m of investment (£5.6m intangible capital software and £8.8m revenue expenditure). The project will benefit both staff and students by providing improved systems and effective processes. We have invested £1.7m in the My Manchester digital platform and £0.7m of endowment funds to upgrade teaching rooms across the University.

Our widening participation activities are a key part of our social responsibility strategy, and the most recent data (2016/17) indicates that we spent in the region of £25m on these activities.

Teaching risks

There is significant risk in relation to home undergraduate tuition fees and student numbers. The Augar review of post-18 education may result in changes to fees and funding for home undergraduates and we are modelling a number of scenarios to assess the potential impact. The analysis above indicates that the £9,250 fee is fully spent supporting the provision of undergraduate education; a reduction in fee could impact on the quality and sustainability of these programmes.

International full-time fees make up 44% of our tuition fee income and are driving tuition fee growth. The inclusion of students in UK immigration targets represents a risk to further growth with the Migration Advisory Committee recently advising the Home Office that there is not a clear case to support a change in policy. The income generated from international student tuition fees is dependent on high numbers of post-graduate taught students. The demand for these programmes can be volatile and we are looking to mitigate this risk in future years by rebalancing between undergraduate and postgraduate students.

Our plans to expand online, blended, transnational education are progressing, with assumptions for future growth included in our financial projections. The risk in terms of the speed and scale of this expansion is being monitored and managed by the University of Manchester Worldwide leadership team.

Teaching impact

Through our work to support access, student success, progression and employability the University proactively seeks to address the specific challenges which students from widening participation backgrounds often

face in making the transition to university study and subsequent employment. In 2017 we concluded a review of our widening participation activity and developed a set of principles to underpin our future priorities and investment. These were reflected in our recent Access and Participation Plan with the Office for Students (OfS), providing detailed information on the University's responsibility to all students, regardless of background or financial considerations.

Parts of Greater Manchester have some of the lowest progression rates into higher education in the UK and we are committed to addressing this through the delivery of longer term outreach work and targeted pre-16 activities with the most able, disadvantaged students. To illustrate this, during 2017/18, 90 pupils participated in the Primary Literacy Scheme, 405 attended a Primary Awareness Day and there were 745,934 users of The Children's University of Manchester website. In addition, 1,453 secondary school pupils participated in our Manchester Gateways Programme. The University is part of Greater Manchester Higher (GMH), originally a HEFCE-funded National Network for Collaborative Outreach, which delivers a programme of activities to target learners, including specific target groups such as care experienced and disabled students. During 2017/18, 1,198 pupils aged between 12 and 15 visited one of the partner universities, participating in events on campus. In addition, staff and student ambassadors achieved over 25,000 engagements with learners in schools. Our commitment in this area is further emphasised by a strategic partnership with The Brilliant Club supporting attainment raising and widening access to highly selective universities, and since we began our partnership in 2014/15 there has been a total of 78 tutor placements in schools working with 851 pupils in receipt of Pupil Premium funding or Free School Meals.

Our post-16 work enables prospective higher education students to find out about studying at The University of Manchester and other research-intensive institutions. In 2017/18 we developed Access Manchester, a coherent framework and website for our range of widening access programmes, which students and their key influencers can easily understand.

Our flagship initiative, the Manchester Access Programme (MAP), supports outstanding Year 12/13 students from under-represented groups in Greater Manchester and with no immediate family history of participation in higher education to progress successfully into The University of Manchester and other research-intensive universities. MAP is now firmly embedded in the work of the University- from 2005 to entry in 2018, over 1,900 MAP students have been successful in gaining a place at the University. In addition, many MAP students have also progressed to courses at other highly-selective, research-intensive universities. We have also expanded our online Manchester Distance Access Scheme (MDAS), a national widening access programme for students who have been made an offer from the University. Students complete an academic piece of work related to the subject they plan to study at degree level and in 2018, 156 students successfully completed MDAS.

Since 2011, the University has provided admissions decision-makers with supplementary data to allow them to put the achievements of each individual applicant into context. Indeed, as a University we perform towards the top of the English Russell Group for the proportion of entrants from disadvantaged backgrounds. The latest HESA Performance Indicator Data for 2016/17 shows 7.9% of our entrants (410 students) were from POLAR3 Low Participation Neighbourhoods (LPNs), performing above the average for the English Russell Group of 6.5%. We also have a high proportion of entrants from lower socio-economic backgrounds at 22.8%, above the English Russell Group average of 20.4%. We recognise that some applicants may have previously faced social, socio-economic or educational disadvantages. From entry 2019, in order to ensure that all applicants with the potential to succeed have equal opportunities through our selection process, we will strengthen our use of contextual data and make contextually flagged students an offer of one A-level grade lower (or equivalent) than the standard offer for their course, if they place Manchester as their firm choice.

In 2018, the University's overall undergraduate student satisfaction, as measured in the National Student Survey (NSS), in keeping with a slight national decline in NSS outcomes, was 83% with a response rate of 50%. This followed the non-publication of our NSS results in 2017, when the University's response rate (at 48%) was below the threshold required for publication. Over the last year the University has emphasised its commitment to enhance student satisfaction with continued development of our online support (My Learning Experience), promotion of interdisciplinary learning and student choice (University College for Interdisciplinary Learning) and opportunities to engage beyond the curriculum (Stellify). We have also invested in the Student Lifecycle Project with the aim of improving processes across all aspects of the student journey from application to graduation.

Our capital programme will also support our students, with new facilities for teaching and learning within the new Alliance Manchester Business School and Manchester Engineering Campus Development and new student residences in Fallowfield.

Non-continuation at the University is low with only 3.8% of all entrants no longer in HE by 2016/17 (of entrants in 2015/16). In 2016/17, 4.1% of our young entrants from LPNs were no longer in HE and compares to an England average of 8.7%. Our data for 2016/17 indicates that 29.2% of our undergraduate students were from low income households of less than £25,000 per annum. The University is committed to ensuring that financial issues do not present an obstacle for learners to access the full student experience. Approximately a third of all our students will receive bursaries of up to £2,000 per year – and around 200 Widening Participation students will receive the University's targeted Undergraduate Access Scholarship in each year.

Over the past six years, the University has seen significant improvement in its Destination of Leavers from Higher Education (DLHE) data. This analyses the percentage of graduates in graduate-level work and/or further study six months after graduating; the University's positive graduate destination rate has improved from 71.9% in 2011/12 to 80.7% in 2016/17. The 2016/17 figure represented an overall decrease of 1.8% from the previous year (despite improvements is some areas) , although it is important to note that a different collection methodology was used for 2016/17 data and from next year a new, Graduate Outcomes survey will look at students fifteen months after graduation.

Behind the headlines, in 2016/17 there was an increase of 3.4% in terms of progression to further study over the previous year, the biggest such increase in the Russell Group; a decrease in levels of unemployment (-1.1%); and our graduates reported feeling very well prepared for employment, placing us sixth in the Russell Group on this measure.

A key ambition of the University is to promote a 21st century, interdisciplinary approach to learning and scholarship through our University College for Interdisciplinary Learning (UCIL). UCIL offers credit-bearing course units that contribute to a student's degree programme. Units bridge disciplines, with many focused on complex challenges of now and the future such as global conflict, sustainability, leadership & enterprise, mental health, food security and the impact of artificial intelligence. UCIL has developed rigorous and innovative platforms and models for teaching, learning and assessment, from face-to-face, through blended, to interactive online learning. Units are delivered by pan-University teams of world-leading academics. Students from across the University study together, bringing their own subjects' academic perspectives to an issue. In this way, they develop new ways of thinking that equip them for a rapidly changing world. They acquire key employability skills such as team-working, cultural awareness, problem-solving, critical analysis, adaptability and resilience. In 2017/18 1,553 students drawn from all faculties completed a UCIL unit.

3. World-class Research

Research income

Total research income has grown by 14.0% to £298.7m, mainly driven by increased capital income. Research income accounts for 28.2% of our total income, supporting our position as a research intensive University.

Underlying research revenue income excluding capital has grown by £3.3m (1.4%), which is lower than the growth seen in recent years. A significant factor impacting on our research income this year has been the delays and lower activity on research projects following the fire in April 2017 at the Paterson Building. The University is now working in partnership with The Christie and Cancer Research UK to replace the Paterson building with an integrated state of the art cancer research facility.

Funding from industry and commerce has also fallen this year, reflecting the end of the Salford Lung study, a large, successful research project funded by Glaxo Smith Kline (GSK).

Our funding from UK Research Councils has grown by £14.5m in the year, mainly driven by capital income relating to the Henry Royce Institute (£25.5m). The Henry Royce Institute will be the UK national centre for research and innovation of advanced materials, showcasing our position as a world-leader in developing new and existing materials and supporting the University's 'Advanced Materials' research beacon. It operates on a 'hub and spoke' model, with the 'hub' at The University of Manchester and with 'spokes' at the founding partners, initially comprising the universities of Sheffield, Leeds, Liverpool, Cambridge, Oxford and Imperial College London, as well as the UK Atomic Energy Authority and the National Nuclear Laboratory.

There was also growth in capital income from UK based charities, mainly due to additional funding for the Cancer Research UK Manchester Institute. Our research funding from international sources has seen a significant increase due to capital income for the Graphene Engineering Innovation Centre funded by the Abu Dhabi Future Energy Company PJSC.

In addition to these research funded facilities, the University's capital developments for MECD and AMBS will support continued world-class research. This year we commenced internally funded investment in the Research Lifecycle project, with the objective of improving our systems and processes related to research. We have also invested in data storage to support research, funded by endowments.

The value of our research awards has grown over the last two years, however in 2017/18 we have seen a slight downturn of 2.5%. This indicates an increasingly competitive market for research funding, with the impact of Brexit uncertain.

Funding body grants

Income from funding bodies was £127.1m, a decrease of £6.8m compared to the prior year. Our funding in 2016/17 included significant contributions for two large building projects which are now in use (the Graphene Engineering Innovation Centre and Schuster Building Annexe). Our capital grants for 2017/18 include £4.3m of UK Research Partnership Investment Fund income to support the Alliance Manchester Business School development. There was also a £0.9m increase in funding for Special Initiatives over a number of projects with the largest being from the Industrial Strategy National Productivity Investment Fund.

Research England has taken on the role previously performed by HEFCE in allocating funding for research in England. This role encompasses ensuring the sustainability of the Higher Education research base in England, managing the UK Research Partnership Investment Fund and administering Higher Education Innovation Funding.

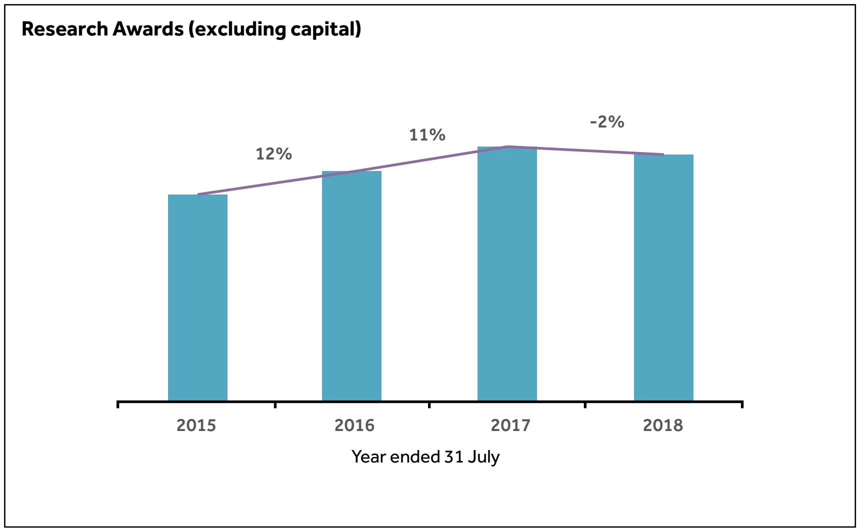
Research risks

An element of the uncertainty around the future of research funding in the UK has been resolved given no immediate financial impact has been experienced following the creation of UKRI and Research England. Our future plans assume that we will grow our share of the income available from these sources. The research funding model presents a risk to the sustainability of research intensive Universities, with funders not required to pay the full economic cost for research. The result is that international tuition fee income has to be used to subsidise research. Whilst this has the benefit to students of enabling research-led teaching, it restricts our ability to invest in research infrastructure and staffing.

We are progressing our internal initiatives to improve our research cost recovery, however this continues to be challenging with increased pressure from funders to reduce costs and match their equipment funding with internal funds.

Research impact

The University of Manchester's five research beacons, comprising Advanced Materials, Cancer, Energy, Global Inequalities and Industrial Biotechnology – see www.manchester.ac.uk/beacons - are examples of our pioneering discoveries, interdisciplinary collaboration and cross-sector partnerships that are tackling some of the biggest questions facing the planet. We have almost 900 research partnerships with public, private and third-sector organisations.



The University is at the forefront of tackling global inequalities, with more than 300 of our staff working in this area – from poverty to social justice, from living conditions to equality in the workplace. We are improving understanding of the world and changing it for the better. We seek to guide governments and policymakers towards new approaches to tackling poverty in countries such as Zimbabwe, Bangladesh and Tanzania and the University has been part of the response effort in significant global humanitarian crises in the Philippines, Gaza and Sierra Leone. Our Global Development Institute is the largest dedicated research and teaching institute of its kind in Europe. Our Humanitarian and Conflict Response Institute is the most significant teaching and research institute in the UK for humanitarian studies and one of the top five worldwide.

The University's work on advanced materials will allow people to work in the most demanding environments, on the frontiers of the energy sector or inside the human body. This research is developing innovative solutions to some of the world's most critical problems. The University is recognised as the global knowledge base in graphene and 2D materials, with more than 300 dedicated researchers, two Nobel laureates and more than £195m of investment. We have been chosen to host the national £235m Henry Royce Institute (due to open in 2020) and the University's $100m partnership with BP has created in Manchester an international hub for advanced materials expertise.

Our health research includes cancer research where we are making a leading contribution in the fight against the disease. Survival rates from the disease have doubled in the last 40 years in the UK. The University's approach to cancer research spans the full spectrum of combating the disease, from early diagnosis to help for carers. Our breakthroughs include clinical trials with AstraZeneca for Anastrozole, which prevents relapses in breast cancer. More than 1.5 million women have benefitted from breast cancer therapy developed by our researchers. We are partners in the Manchester Cancer Research Centre (MCRC) with the Christie NHS Foundation Trust and Cancer Research UK and six NHS trusts work with us as part of the Manchester Academic Health Science Centre. Following the 2017 fire at the Paterson Research Building, the MCRC partners agreed to financially support a £100-£150m new research facility which will be completed in 2021. It aims to deliver the scale and diversity of infrastructure for the next 15-20 years to enable recruitment of additional world-class researchers, break down barriers between cancer research sectors and help to drive further research/clinical integration.

In 2016, Manchester was awarded £28.5m of National Institute for Health Research Funding towards the NIHR Biomedical Research Centre which is driving forward pioneering research into new tests and treatments for a number of diseases including cancer. In 2018 a Manchester health consortium including The University of Manchester was awarded £6.8m to develop an Innovate Manchester Advanced Therapy Centre Hub (iMATCH) which will focus on cellular therapies for a wide range of illnesses, including cancer.

The University is also leading the European renaissance in industrial biotechnology, finding sustainable alternatives to the finite resources needed to manufacture products that we use every day. We have a grant portfolio in industrial biotechnology worth more than £110m and partnerships with leading companies – including GlaxoSmithKline, Shell, Unilever and Pfizer – drive the creation of new bio-based chemicals.

From the sustainability of sources to meeting the demands of urban communities, the world faces some big questions on energy. We are finding the solutions that will allow us to continue to heat our homes, light our buildings and travel more efficiently. We have 650 staff researching energy solutions for the future and £75m of energy projects, covering generation, storage, systems and use. We are part of the SUPERGEN UK Centre for Marine Energy Research and lead on two projects. Our Dalton Nuclear Institute is the UK's most advanced academic centre for nuclear research and development and high-level skills development. The launch in July 2018 of our Manchester Environmental Research Institute further strengthens our capabilities and contribution to the challenges of developing sustainable energy sources.

The encouragement of enterprise is a critical part of our culture and the commercialisation and exploitation of our intellectual property is a fundamental part of our activity. New jobs have been created, many processes improved and valuable new products have been developed which have been sold here and abroad.

Our history of intellectual property commercialisation spans more than 25 years, during which time we have generated more than 100 spin-out companies, concluded over 300 technology licences and won several national awards for our social enterprise activities. Since 2004 our commercialisation activities have contributed over £500m to the UK economy. The benefits of our research to local, national and international communities are numerous – we have University-trained medical professionals working in local NHS Trusts, whilst on an international scale our pioneering research around global issues, such as climate change and sustainable energy, poverty and economics, and biomedical research, is helping to influence public policy and make a real difference to society.

The University also entered a deal in September 2015 with leaders across health-care research, academia and industry to harness the partner organisations' collective expertise to develop the infrastructure needed for clinical trials and health informatics. Health Innovation Manchester will speed up the discovery, development and delivery of innovative solutions to help improve the health of the almost three million people in Greater Manchester, and beyond.

The Greater Manchester conurbation has some of the poorest areas in the country, with persistent inequalities of treatment, opportunities and experiences of different social groups. A growing programme of research is aiming to address inequalities in Greater Manchester and maximise the benefits for the city region from our research through collaboration and engagement with the public and policymakers to address issues of equality and fairness. This includes £987,000 invested in a Greater Manchester Inclusive Growth Analysis Unit, with £400,000 of this coming from a partnership with the Joseph Rowntree Foundation. This programme has engaged stakeholders to ensure that poverty reduction is central to the growth and devolution agendas in Greater Manchester and examples of activity include a Greater Manchester Fair Growth conference with the Greater Manchester Combined Authority, the development of reports on inclusive growth and a Human Development Index for Greater Manchester.

The University has had a particularly successful year in business engagement which has included regaining first position in the value of research contracts from UK firms and second position in the value of all collaborative research with business. Examples of the latter have included securing four Prosperity Partnerships, flagship projects for the Industrial Strategy, in collaboration with Unilever, BP, Astra Zeneca and Akzo Nobel. We rose nine places to 7th in Europe and 3rd in the UK in the main ranking table in this domain, *Reuters listing of Europe's Most Innovative Universities* based on factors such as patents filed and cited, collaboration with industry in research publications and journal articles published.

The year also saw the successful launch of the Scale Up Forum by the Alliance Manchester Business School, a peer-to-peer network catering for some of the fastest-growing firms in the Greater Manchester region. Work with SMEs has also been enhanced by new Knowledge Transfer Partnerships (KTP), a prestigious Innovate UK scheme supporting projects which engage a researcher to develop an innovation for a company. Projects have ranged from combating insurance fraud using machine learning techniques through to development of revolutionary graphene-soled running shoes. The University has the highest number of KTPs in England. Our success in business engagement creates an environment for student enterprise to flourish, for example through our competitions, Venture Further and the Eli and Britt Harari Graphene Enterprise Awards.

4. Social Responsibility

The strategic priority we give to social responsibility is unique among British universities. Social responsibility describes the way we make a difference to the social and environmental wellbeing of society through our research, teaching, activities and operations. Our work on social responsibility activity has five priorities: research with impact; socially responsible graduates; engaging our communities; responsible processes; and environmental sustainability.

Across 'research with impact', the University is tackling some of the world's greatest challenges through our investment in research. As referred to above, these are exemplified by our five research beacons, where we are producing innovative research breakthroughs that are making a lasting difference to the world.

Across 'socially responsible graduates', we are ensuring the students we educate represent the widest variety of backgrounds and develop not only academic and professional skills, but also a sense of ethical, social and environmental responsibility towards the societies they serve. Locally, the work on the Manchester Access Programme is referred to above. Worldwide, we support Master's students from some of the world's least developed countries – Uganda, Tanzania, Rwanda and Bangladesh – to undertake a Manchester study programme at no cost, to support the development of their countries. In the past year 16 full-time campus students and 10 distance learning students benefited from this Equity and Merit Scholarship Scheme.

Upon arrival at Manchester, all new students are supported to 'do more and be more' during their time at Manchester through our Stellify initiative. This encourages students to consider their place in the world and how they can make a difference. In 2017/18 examples of impact include 4,757 first year students taking part in a sustainability challenge, 1,350 second year students undertaking a new online social justice challenge and 972 students taking part in externally-verified volunteering activities that benefit wider society.

Across 'engaging our communities', the University invests significant resources in its publicly-accessible cultural institutions to engage and inspire local communities and wider society with science, heritage, literature, the arts and wider culture. We have heritage assets of £257m on our balance sheet, with our total heritage assets valued at £1.4bn for insurance purposes. This year saw the addition of three new artworks donated to the Whitworth, with a combined value of £1.2m. Specific importance is attached to the work of the Manchester Museum, the Whitworth, John Rylands Library and Jodrell Bank Discovery Centre in engaging with schoolchildren and people from under-represented groups. The total number of visits to our cultural institutions for 2017/18 was 1,310,714 (Manchester Museum (527,046), the Whitworth (292,189), John Rylands Library (302,309) and Jodrell Bank Discovery Centre (189,170 – including attendance at the award-winning Bluedot festival featuring music, science, technology and the arts). Our Cultural Explorers Programme for these four institutions also engaged nearly 1,000 of our most local nine year old school children in a common out-of-school learning programme.

We encourage staff to support the educational achievement of pupils in state schools and to this end encourage them to volunteer as School Governors. Our multi-award winning School Governor Initiative is the largest in the UK. In the previous year, 905 staff and alumni who are school governors gave 10,860 days supporting 407,250 learners. We also organize a Community Festival, a Science Spectacular event and a ScienceX showcase in a local shopping centre which engaged more than 7,000 members of the local community with our research and teaching during 2017/18.

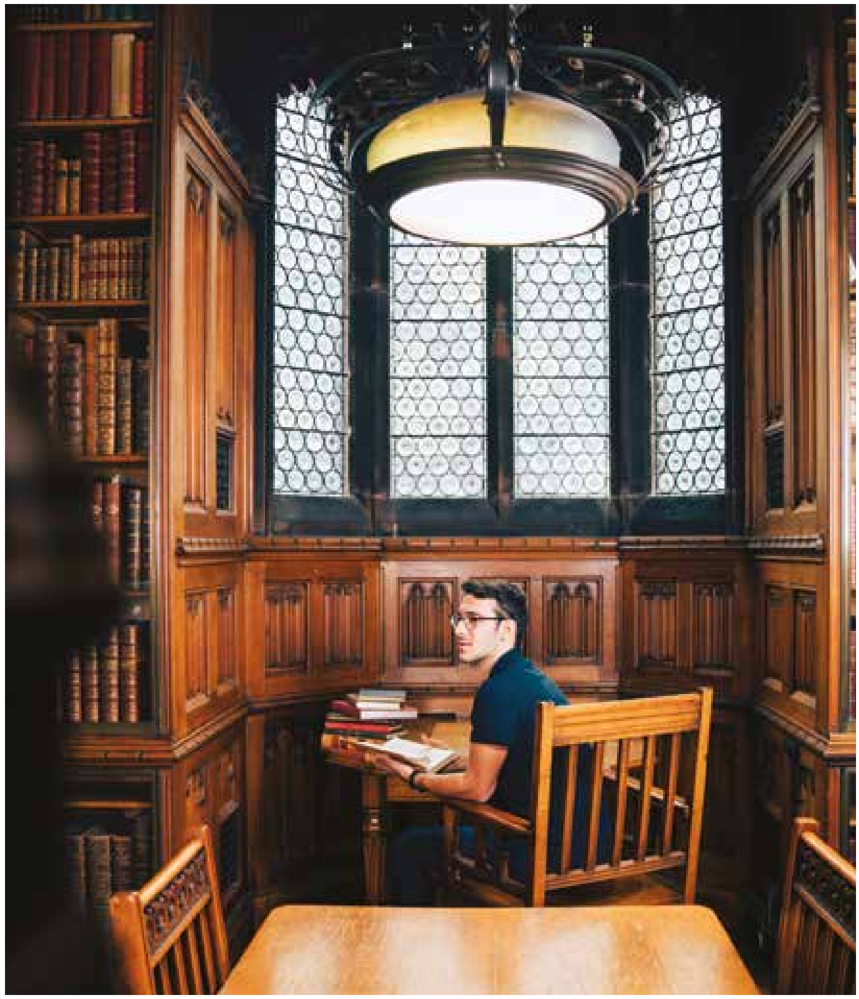
Across 'responsible processes' we aim to use our position as a key anchor institution in the city region to benefit society through our significant business operations such as employment and procurement. Skills and employment levels in our local communities are lower than average in the UK. Our University is helping to address this through our leadership of The Works – an award-winning and unique facility in British higher education based in the heart of our local community. This provides opportunities and support to jobseekers including pre-recruitment training and job matching to local employers, including to the University. Since 2011 The Works has supported 4,153 people back into work, creating £61 million of economic value to the region. We have also recruited 54 new apprentices at the University this year.

We signed up to the United Nations-supported Principles for Responsible Investment (PRI), becoming the first English Russell Group University to join the organisation.

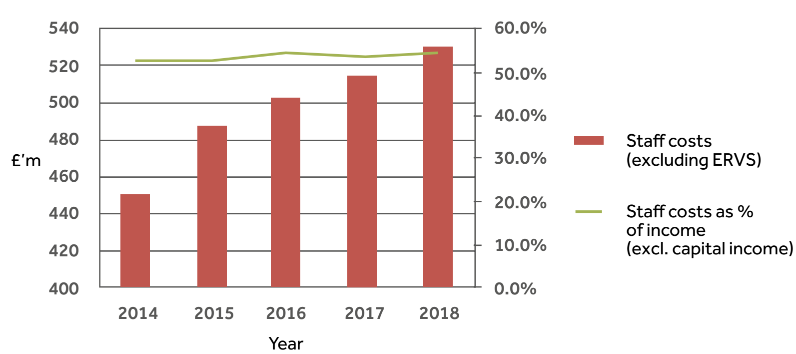
We are keen to ensure that opportunities for women and Black, Asian and Minority Ethnic (BAME) staff to progress into and through the University are measured and have a number of initiatives to improve representation of these groups of staff. The proportion of female academics at senior lecturer and above remained at 31% in 2017/18 compared with 22% in 2007/08. This compares to a female lecturer pool of 45%. The proportion of ethnic minority staff at Grade 6 and above in the Professional Support Services who are BAME remained at 8% in 2017/18, whereas the proportion of BAME employed in professional occupations in the UK was 14%. The proportion of BAME staff who were senior lecturers, readers and professors across all Faculties in 2017/18 was 11%, whereas the BAME lecturer pool was 19%. After some improvement since 2008/09 this has plateaued of late and remains an area of focus for the University. In comparison to other Russell Group institutions the University has above average representation of BAME staff in both academic and professional and support services roles. We were also recognised as Greater Manchester's leading employer for LGBT-inclusivity in the annual Stonewall index.

Across 'environmental sustainability' the University is using its full range of knowledge and influence to support a world that is environmentally sustainable. Through our research we are at the forefront of tackling key global challenges such as climate change, population growth, rapid urbanisation, overconsumption, food and water security, loss of biodiversity and pollution. We are equipping all students with knowledge and experience to positively contribute to our world as professionals and citizens of tomorrow through formal study programmes and extra-curricular initiatives such as our Ethical Grand Challenges, which is offered to all 8,000 new undergraduate students.

We have ensured our organisational processes, such as our £1bn campus development programme, procurement, and energy and resource management, are creating opportunities for the efficient use of natural resources, with the additional benefits of



Staff costs (excluding ERVS) and staff costs as % of income (excluding capital income)



financial savings and an environment that enhances health and wellbeing.

Over 60% of University staff members travel to work sustainably, with 26% walking or cycling. 97% of our students travel sustainably, with 46% walking or cycling. In addition, the University's Bicycle Users' Group (UMBUG) is one of the biggest in the HE sector with over a thousand members and UMRun is the first employer run-commute group established outside of London. We are also engaging with staff, students and alumni to embed a culture of environmental sustainability, and partnering with people and organisations in pursuit of shared goals around sustainability. For example we support our community of over 10,000 staff through the 10,000 Actions initiative, which engaged 55% of staff in more than 36,000 actions on sustainability, winning the world's first Carbon Literate University award and a Sustainability Award from the Association of University Directors of Estates (AUDE).

5. Financial Management and Risks

Staff costs

Staff costs including ERVS have increased by £20.7m during 2017/18. The main driver of this increase is inflationary pay awards and increments and this is the first year when we have experienced the full impact of the Apprenticeship Levy (£1.2m). The M2020 strategic initiatives have resulted in a reduction in headcount in a number of areas with a significant increase in ERVS costs from £1.9m in 2016/17 to £6.3m. Pensions costs included with staff costs have grown by £5.0m, driven by additional USS and UMSS contributions and an increase in UMSS service costs due to a higher RPI assumption. Staff costs excluding ERVS costs as a percentage of our income (excluding capital income) have increased from 53.9% to 54.4%, indicating that staff costs have grown more quickly than income.

Capital investments

In 2017/18, we have seen significant progress across our capital masterplan, resulting in an increase of £150.5m in our tangible fixed assets at the year end. This investment is across a number of building projects to support our teaching and research, including Manchester Engineering Campus Development, Alliance Manchester Business School, Henry Royce Institute, Graphene Engineering Innovation Centre and Fallowfield student residences.

Capital risks

Last year we highlighted a risk relating to inflation on capital costs, however as the majority of projects within the Capital Masterplan are now under contract, this risk has been significantly mitigated. The collapse of Carillion in January 2018 has reduced confidence in the construction industry and has resulted in reduced competition in the market. All risks relating to capital are monitored by the University's Capital Planning Sub-Committee and Finance Sub-Committee with support from the University Estates and Finance teams. Recommendations from the sub-committees are reviewed for approval by Finance Committee.

The University's Board of Governors has approved a proposal to seek a corporate partner to develop its North Campus site in Manchester city centre into a world-class innovation district over the next 20 years. The plan is to develop the site into an exciting research and business campus, where the world's most valuable ideas will be transformed into reality. The development is projected to generate growth over the next 20 years or more for the local economy and is projected to create up to 6,000 jobs. It will also help to ensure the long-term financial strength of the University by delivering a continuing future income stream for investment in the University's educational and research activities.

Cash and liquidity and investments

Cash reserves are at £315.3m, a net reduction of £70.3m compared with prior year. This has resulted in a decrease in liquidity days from 157 in 2016/17 to 121 in 2017/18. The major cash outflow during the year has been the planned investment in our Capital Masterplan with cash expenditure on fixed assets of £236.7m compared to £164.1m last year.

Our financial planning places a strong focus on maintaining a sustainable cash position. For planning purposes we have prepared a number of scenarios to highlight areas of risk and identify mitigating actions.

Endowment and investment performance continues to remain a risk with returns dependent on volatile financial markets notably due to the unknown impact of Brexit.

Financial instruments

Financial risk management

The University's Treasury function monitors and manages the financial risks relating to our operations through internal risk reports, which analyse exposure by degree and magnitude of risks. Compliance with policies and exposure limits is reviewed by Finance Committee on a regular basis. We do not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the University.

The credit risk on liquid funds and financial instruments is limited because our exposure is to counterparties with high credit-ratings which have been assigned by international credit-rating agencies. Our exposure and the credit ratings of our counterparties, are continuously monitored. Credit exposure is controlled by counterparty limits that are reviewed and approved by Finance Committee at least annually. Trade receivables consist of a large number of customers, spread across diverse sectors, populations and geographical areas.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Governors, which has built an appropriate liquidity risk management framework for the management of the University's short, medium and long-term funding and liquidity management requirements.

We manage liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of certain financial assets and liabilities.

Price and interest rate risk

Price risk arises on financial instruments because of changes in, for example, commodity prices or equity prices. Listed investments with a fair value of £318.1m are exposed to price risk but this exposure is within the University's risk appetite.

The University had £280.0m held to maturity investments on short and long term deposit and £25.1m in money market funds. All deposits are subject to fixed interest rates and we are therefore not subject to any significant exposure to fluctuating rates.

Going Concern

The University ended the year with cash resources of £315.3m. The budget for 2018/19 continues to show a surplus albeit at levels lower than the recent past. Forward cash forecasts demonstrate adequate available financial resources.

All of the University's external funding is long-term in nature with 99.0% repayable beyond one year and 97.5% repayable beyond five years. No material uncertainties that cast significant doubt about the ability of the University to continue as a going concern for the foreseeable future have been identified by the Board of Governors.

Reviews of our financial sustainability going forward are on-going. Any concerns identified will be brought to the attention of the Board of Governors immediately.

Corporate governance statement

The University of Manchester is an independent corporation which came into existence on 1 October 2004. It was established by Royal Charter on the dissolution of the Victoria University of Manchester and the University of Manchester Institute of Science and Technology (UMIST), both of whose rights, properties, assets and obligations were transferred to the institution by means of the University of Manchester Act (2004).

As a recipient of substantial public funding and by virtue of its educational objectives, it is considered an exempt charity under Schedule 2 of the Charities Act 1993, with the Office for Students acting as its Principal Regulator.

The University of Manchester has a duty to conduct its affairs in a responsible and transparent way, and to take into account the requirements of its regulators and the Governance Code of Practice published by the Committee of University Chairs (CUC). The University's corporate governance arrangements were established in such a way as to meet these responsibilities and continue to comply with provisions in the First and Second Reports of the Committee on Standards in Public Life (the Nolan Principles). The CUC Code was revised and published in December 2014 and the University's governing body, the Board of Governors, has reviewed its operations against the Code to ensure all relevant provisions are addressed in its governance arrangements. The Code was updated in June 2018 to include further guidance on the composition and operation of Remuneration Committees and the University is compliant with this revised guidance.

In addition, the University corporately, through its arrangements for governance, is committed in a demonstrable way to the principles of academic freedom and equality of opportunity, which are embodied in its Charter and Statutes. In addition and again, as articulated in Charter and Statutes, the University takes reasonably practicable steps to ensure that freedom of speech within the law is secured, and has adopted a Code of Practice on Freedom of Speech to enable this.

The University's Corporate Governance Framework

The Charter and Statutes provide for and empower 'authoritative bodies' within the University, each of which has a distinct role to play in its structure of governance.

The **Board of Governors**, is the University's governing body, and carries the ultimate responsibility for the University's overall strategic direction and for the management of its finances, property and affairs generally, including the employment arrangements for all staff. It is a specific role of the Board to satisfy itself that work being undertaken on its behalf, whether by committees or by officers, is consistent with corporate objectives and is within the bounds of accepted good practice. The Board meets formally at least five times in each academic year. Its membership of 25 has a majority of independent, lay members. The Chair of the Board of Governors, Mr Edward M Astle, is appointed by the Board of Governors from within the lay category of the membership and took up his role on 1 September 2016. The President and Vice-Chancellor, members of the Senate, members of the support staff and a student representative also serve on the Board (as noted at various points in the Statement, students are represented and actively engage with governance processes across the University).

The Chair of the Board of Governors plays an important role in the governance of the University while working independently of its regular executive management. He is supported by a Deputy Chair, Dame Sue Ion (Dame Sue retired from the Board on 31 August 2018 and has been replaced as Deputy Chair by Mr John Stageman). The current members of the Board of Governors are listed on the contents page. Last year's corporate governance statement referred to the independent review of governance commissioned in 2016/17. The review concluded that the University is effectively governed, that the Board is very well chaired, that members of the Board have an extensive and impressive range of skills and experience and without exception display enthusiastic commitment. Work has been carried out during 2017/18 to implement recommendations arising from the review. Some of this (including proposed changes to the size and composition of the Board) requires changes to Statutes and supporting Ordinances. Initial, informal liaison with the Privy Council about the proposed changes to Statutes has taken place and it is anticipated that final proposals for amendment will be submitted to the Privy Council in 2018/19.

The **Senate** is responsible to the Board for the promotion of research and for monitoring standards in teaching. It acts as the University's principal academic authority and the Board of Governors seeks assurance from Senate that arrangements for institutional academic governance are effective (see below). A large number of the statutory powers reserved to Senate are 'regulatory' in nature and control the academic business of the University. The Senate currently has 69 members drawn from five categories of membership. Across categories 1, 2 and 3, a third are designated ex-officio positions and reserved for those with academic management responsibilities centrally and in the faculties, the remaining two-thirds are elected academic members (professorial and non-professorial). Categories 4 and 5 are made up of co-opted and student representatives.

At its meeting in November 2017, the Board of Governors considered a report setting out the basis for its assurances concerning the oversight of the academic experience and the setting and maintenance of standards, as part of the Annual Assurance Return to the previous sector funding body and regulator, the Higher Education Funding Council for England (HEFCE) which ceased operating on 31 March 2018. The Board confirmed that on the basis of the information presented and the additional reporting undertaken through the year;

- it had received and discussed a report and accompanying action plan relating to the continuous improvement of the student academic experience and student outcomes. This included evidence from internal periodic review processes, which fully involve students and include embedded external peer or professional review;
- to the best of its knowledge, the methodologies used as a basis to improve the student academic experience and student outcomes were robust and appropriate; and
- the standards of awards for which the University is responsible have been appropriately set and maintained.

In addition, the Board of Governors receives regular updates on academic governance related matters through both reports from the Senate and specific briefings (for example on the Teaching Excellence Framework).

The Board of Governors has an **Audit Committee**, a **Finance Committee**, a **Remuneration Committee**, a **Staffing Committee** and, jointly with the **General Assembly** (see later definition), a **Nominations Committee**, which report directly to it. The Board has also established processes which ensure both that it is kept regularly advised on the strategic and policy elements of estates, human resources and health and safety issues, and that it can act effectively and in an informed way with respect to these matters when it is required to do so. In the context of institutional governance, the **Audit Committee** has a particularly important function in expressing opinions and giving assurances to the Board relating to its review of the effectiveness of the University's arrangements for risk management, control and governance. The risk management element of this role includes the review of the processes which lead to the statement on internal control in the financial statements. Both the Finance and Audit Committees have co-opted independent members with specific expertise to augment existing membership.

The section headed risk management below provides further detail on the role of the Audit Committee in relation to risk oversight and assurance, including regular scrutiny of the institutional Risk Register and Risk Maps, and commissioning of "deep dive" reviews. As part of this process both the Committee and the Board reflect on the key risks facing the University. In 2017/18 this has included focus on a number of internal and external risks. Examples include IT related risks in light of significant investment and change in this area and an environment of heightened external cyber-secuity risk and initial consideration of the concept of composite or cumulative risk, including inter-connected risk and coincidence of multiple risk (work on this will continue in 2018/19).

The Audit Committee will also, whenever appropriate, provide explicit confirmation to the Board that necessary actions have been, or are being taken to remedy any significant failings or weaknesses identified from the review of the effectiveness of internal control. The Committee also receives regular reports on any cases raised under the University's Public Interest Disclosure or whistleblowing procedures, and on the University's data protection and cyber security work (in 2017/18, the former included an assessment of preparedness for the implementation of the General Data Protection Regulation).

The **Finance Committee** is primarily responsible for oversight of the University's financial strategy and its financial viability, the preparation of the financial statements, oversight of the University's subsidiary companies and the management of capital projects and of University investments. It considers and forwards to the Board the University's long-term financial plans, recommendations concerning borrowing, University budgets, and the financial plans and forecasts provided to regulators.

The **Nominations Committee** recognises the continuing need to refresh membership of both the Board of Governors and the General Assembly. The Committee endeavours to ensure a broad and complementary range of skills, expertise and experience across categories of lay membership reflecting the needs and aspirations of the University and thus ensuring good and effective institutional governance. The Committee works to a skills and diversity matrix that is regularly reviewed and agreed by the Board, and ensures the right specialised skills for committees as well as broader skills, experience and diversity for the Board. In 2017/18, the Committee oversaw the process which resulted in four new lay members being approved for membership of the Board of Governors with effect from 1 September 2018 ensuring that these appointments complemented the existing skills, experience and diversity mix. Robust recruitment and appointment processes ensure that the Board is comprised of fit and proper persons. The Committee accepts the expectations concerning equality, diversity and inclusion in the CUC Code of Governance and appreciates that board diversity, in particular, promotes more constructive and challenging dialogue. The independent review of governance referred to above includes recommendation for changes to the composition of the Committee with consequent amendments to Statutes and it is anticipated that these amendments will be put to the Privy Council for approval in 2018/19.

The **Remuneration Committee** (provides a comprehensive report of its activity to the Board of Governors in July of each year. This provides information on its role, remit, and its working methods as well as a summary of the decisions it has taken and the conclusions of the salary review undertaken for senior staff. The Remuneration Committee report for the year ended 31 July 2018 is on page 26.

The University is aware of the need to balance the challenging financial climate, the external perception of senior salaries and the University's ability to pay, with the need to recognise the contribution and performance of individuals and retain its best staff, and this informed the Committee's decision making over 2017/18. The University's approach to the requirements of the Office for Students Accounts Direction and the CUC Higher Education Senior Staff Remuneration Code is set out on the report from the Remuneration Committee referred to above.

The **Staffing Committee** is established by the Board under Statute and Ordinance to give full and proper consideration to any proposals notified to it to dismiss members of academic and academic-related staff on grounds of redundancy. For each instance, appropriate information is provided to the Committee to allow it to reach a reasoned assessment of the proposal and to consider alternative strategies for the resolution of the circumstances leading to the proposal. Its recommendations are then passed to the full Board of Governors for approval.

The **Planning and Resources Committee** (PRC), which is chaired by the President and Vice-Chancellor and includes in its membership the Vice-Presidents, the Registrar, Secretary and Chief Operating Officer, and the Director of Finance, with representation from Senate, Heads of Services and the Students' Union, is the key central management committee. PRC serves as the primary source of advice to the Board of Governors on matters relating to the development and allocation of the University's resources, on strategic planning issues and operational priorities, and on the financial, educational, research and social responsibility performance of the University against agreed goals and targets. Additionally, in consultation with other relevant committees, it develops, for approval by the Board, the University's annual planning, budgeting, performance evaluation and accountability cycle, annual revisions of the University's Strategic Plan and an annual University Budget.

The **Safety, Health and Environment Committee** (SHE), is the University's principal committee responsible for the management of Health and Safety, and environmental and sustainability considerations. Key issues arising from its work are considered regularly by the Board of Governors.

The **General Assembly** is the interface between the University and the wider community. It is a much larger body (over 200 members) than the Board, and in common with it, has a majority of lay members. Lay members are drawn from a wide range of local, regional and national interests, and together they offer the University a wealth of experience and expertise from differing perspectives. The main purpose of the General Assembly is to act as a two-way channel of communication through which the University presents its achievements to its broader 'constituencies' and receives feedback and advice on matters relating to University business. It also includes University staff, alumni and students within its membership. Following a recommendation arising from the independent review of governance, a review of the role of the General Assembly was carried out in 2017/18 and mechanisms to strengthen and enhance engagement with General Assembly members will be implemented in 2018/19; further consideration will also be given to the future size and composition of the General Assembly.

The **Alumni Association** is the body of the University's graduates, and promotes fellowship among graduates while helping them to keep in touch with the University by providing opportunities to take an interest in its development and ongoing activities. General Meetings of the Association are held regularly, with its business between General Meetings conducted by an elected committee. The Association is represented on the governing body and on the General Assembly.

The members of the General Assembly and the Alumni Association, together with all members of paid University staff eligible to hold superannuable appointments, form the constituency for the election of the **Chancellor**, who is the ceremonial Head of the University, presiding over meetings of the General Assembly and over congregations of the University for the conferment of degrees. The role is currently held by Mr Lemn Sissay, MBE, who took up the role in August 2015.

The **President and Vice-Chancellor** (Professor Dame Nancy Rothwell) is the chief executive officer and the principal academic and administrative officer of the University. In fulfilling these functions the President and Vice-Chancellor has overall responsibility for the executive management of the University and for its day-to-day direction, being accountable to the Board of Governors for the exercise of these responsibilities and (as the designated 'accountable officer') to the Office for Students for the use of the public funds the University receives. As the chief executive officer of the University, the President and Vice-Chancellor exercises primary influence on the development of institutional policy and strategy, the identification and planning of new developments and in shaping its institutional ethos. The **Deputy President and Deputy Vice-Chancellor** (Professor Luke Georghiou), the **Vice-Presidents**, the **Registrar, Secretary and Chief Operating Officer** (Mr Will Spinks until 30 September 2018, Mr Patrick Hackett from 1 October 2018) and the senior administrative officers contribute in various ways to this work, collectively acting as the University's **Senior Leadership Team,** but the ultimate executive responsibility rests with the President and Vice-Chancellor.

The function of the University's Professional Support Services (PSS) is to support the primary institutional objectives in respect of teaching and research, to oversee the discharge of the University's statutory and regulatory responsibilities and to implement the policy decisions of Senate and the Board. Through the provision of specialist expertise, it also contributes to and advises on the formulation of University policy. The Head of the Professional Support Services is the **Registrar, Secretary and Chief Operating Officer**, who is also clerk to the governing body and responsible for the provision of secretariat support to the governing body, its committees, the General Assembly and Senate.

The University maintains a Register of Interests of members of the Board of Governors and for members of the Senior Leadership Team, which may be consulted by arrangement with the Registrar, Secretary and Chief Operating Officer. Schools and Directorates also maintain registers of interest for their staff. Members of the Board and of its Committees receive a reminder in the papers for each meeting of the need to declare any interest they may have in relation to the specific business to be transacted. In addition, and building on existing internal and external regulation and guidance, the Board has updated its Conflicts of Interests Policy.

Internal Control

The duties conferred upon the Board of Governors by the University's Charter and Statutes require it to institute and maintain a sound system of internal control. This is designed to support the achievement by the University of its aims and objectives and, at the same time, safeguard public and other funds and assets for which the University is responsible. In that context, the Board is satisfied that the University complies with those provisions of the CUC Guide on the financial aspects of corporate governance which are applicable in a higher education institution. The Board has ultimate responsibility for internal control and discharges this responsibility through the work of the Audit Committee, which reviews and monitors the University's system of internal control. The Board receives regular reports, at each meeting, from the Audit Committee on the steps being taken to manage risks across the University. The Audit Committee also receives regular reports from the internal auditors (the Universities Internal Audit Consortium, Uniac), which include the internal auditors' independent opinion on the adequacy and effectiveness of the University's system of internal control, together with any recommendations for improvement.

Financial Control

The Board of Governors, both directly and through its Finance and Audit Committees, is responsible for ensuring the economical, efficient and effective management of the University resources and expenditure, and for safeguarding its assets, including specific responsibility for the oversight of systems that prevent and detect fraud. It must ensure that the University uses public funds only for the purposes for which they were provided. It is supported in this work through the external auditors, Ernst & Young LLP (EY), and the University's internal auditors, the work of both being overseen by the Audit Committee.

The system of internal financial control provides for comprehensive financial planning processes, assessments of annual income, expenditure, capital and cash flow budgets in conjunction with the monthly review of financial results, the reporting of variances and the projection of out-turns.

The University sets out matters concerning the broad policies relating to financial control in its Financial Regulations. The Regulations are approved by the Board and apply to the University and all its related undertakings, and include all funds passing through University accounts. They encompass the University's processes to investigate fraud and other financial irregularities, budgeting and forecasting, the treatment of year-end balances and capital expenditure programmes and general issues with regard to the accounts and accounting returns of the University.

Value for Money

The University strives to apply value for money considerations to all its processes and activities, and this is supported by strong awareness and vigilance across the senior leadership team. The Audit Committee receives an Annual Report on the University's efforts to secure value for money. This year, this included process design and delivery (including work carried out in partnership with other universities to benchmark costs) and procurement, as well as activities relevant to the three strategic goals of world-class research, outstanding learning and student experience and social responsibility). The report notes that, from a student perspective, key measures of value include student satisfaction metrics (e.g. the National Student Survey and Postgraduate Experience Survey outcomes) and graduate employment outcomes. The Audit Committee also receives a comprehensive report on the Transparent Approach to Costing (TRAC) analysis undertaken by the University in January of each year. In addition, every internal audit review undertaken and submitted to the Audit Committee makes specific observations and judgements concerning the value for money demonstrated and a separate annual efficiency return, setting out efficiencies realised in 2016/17 was submitted to HEFCE by 31 January 2018.

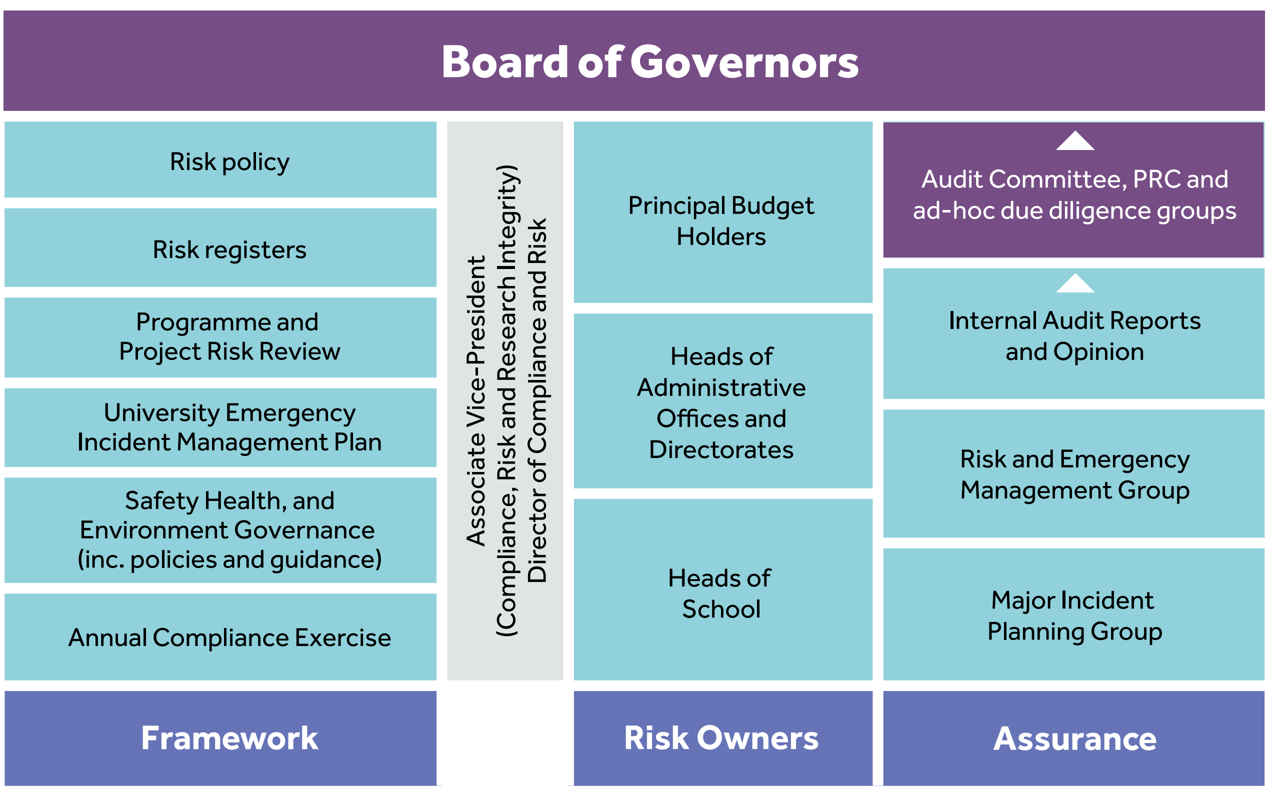
Risk Management

A comprehensive Risk Management framework, defined in the University's Risk Management Policy, assists the management of the University in the identification of the key risks inherent in the delivery of the University's strategy. This is overseen by the Audit Committee in order to gain the necessary assurances on the efficacy of the framework and relay them to the Board of Governors. The Board, through the Audit Committee, PRC, and/or where appropriate through other ad-hoc due diligence groups, evaluates the risks inherent in all major plans and proposals, including the identification of the steps that would be required to mitigate, eliminate and control such risks. The University has also taken additional measures to support the risk management process, including the appointment of a Director of Compliance and Risk and the designation of an Associate Vice-President for Compliance, Risk and Research Integrity (who provide direct advice to senior officers of the University; in addition, the Director of Compliance and Risk provides a report to the Board of Governors, on behalf of the President and Vice-Chancellor, at each meeting). The Director of Compliance and Risk and the Associate Vice-President for Compliance, Risk and Research Integrity oversee the adoption and dissemination, on a continual basis, of risk awareness/management training and the preparation of contingency plans in areas where there is a potential for an occurrence having a catastrophic effect on the University and its business capability. The Risk Register is reviewed by the Audit Committee on a routine basis, and is presented to the Board of Governors at regular intervals. When reviewing the Risk Register, the Committee identifies areas for more in-depth "deep dive" reviews as set out above.

The diagram below depicts the overall responsibility of the Board of Governors for the oversight of risk management within the University. The framework includes a risk policy, risk registers and maps (at School, Faculty, PSS and University level) and the governance of health and safety, and identifies primary risk owners. It is supported by a comprehensive assurance process, which reports through to the Audit Committee, on behalf of the Board of Governors.

The risk management objectives of the University outlined below are based on an overarching policy to adopt best practice in the identification, evaluation and cost-effective control of risks in order that the risks associated with the University's strategy, as set out in Manchester 2020, are eliminated and/or managed down to an acceptable level. The policy includes the following key actions:

- the integration of risk awareness into the culture of the University;
- the management of risk in accordance with best practice;
- the anticipation and appropriate response to risks emerging/associated with changing social, environmental and legislation requirements; and
- the reduction of the costs of risk by taking appropriate steps to mitigate injury and damage to individuals and assets of the University.



Remuneration Committee report for the year to 31 July 2018

This report covers the following topics:

- The responsibilities of the Remuneration Committee.
- The remuneration policies that the Committee operates for the Senior Leadership Team and other Senior Managers.

The Remuneration Committee and its remit

The membership of the Committee is:

Mr Edward M Astle (The Chair of the Board of Governors) (in the Chair for the meeting held on 22 November 2017)

Mr Gary Buxton (in the Chair from 18 April 2018 onwards)

Mr Colin Gillespie

Dr Dame Angela Strank

Dr John Stageman

The President and Vice-Chancellor (except in relation to matters affecting the remuneration of the President and Vice-Chancellor and ceased to be a member from March 2018)

Secretary: Registrar, Secretary and Chief Operating Officer (except in relation to matters affecting the remuneration for the Senior Leadership Team)

The Director of Human Resources is adviser to the Committee which can, if it wishes, call upon external advisers as appropriate.

The Chair of the Board of Governors ceased to be the Chair of the Remuneration Committee as a result of a decision taken by the Board of Governors in March 2018 but remains a member. The President and Vice-Chancellor ceased to be a member of the Remuneration Committee in March 2018 as a result of a decision taken by the Board of Governors in March 2018 and with the full support of the President and Vice-Chancellor.

The Committee considers seperately:

- The remuneration of the President and Vice-Chancellor (in the absence of the President and Vice-Chancellor).
- The remuneration of the Senior Leadership Team, following consideration of recommendations from the President and Vice-Chancellor.

Key decisions taken in 2017/18

The University is aware of the need to balance the challenging financial climate, the external perception of senior salaries and the University's ability to pay with the need to recognise the contribution and performance of individuals and retain its best staff.

The University is seeking to create financial headroom to invest in staff, students and faculties. This is a significant challenge in the light of the increased financial, political and sector uncertainty and financial challenge. These uncertainties include greater global competition, the possibility of changes to UK fees, reductions in public funding, exchange rate fluctuations, a potential decline in student numbers and research income, the impact of TEF and further increases in costs arising from pensions and inflation. These financial pressures are likely to impact on what the University can afford and sustain. This needs to be taken into account when presenting proposals for salary increases, ensuring they are justified through a clearly presented business case.

Against this background, the University increased salaries across the workforce as a whole by 1.7 % (the nationally agreed pay award effective from 1st August 2017) and by an average of a further 1.5% to account for incremental progression i.e. a total of 3.2%. The Committee approved the recommended increase of 1.6% in total salary costs for the Senior Leadership Team. This included the salaries of the President and Vice-Chancellor and her direct reports.

(Note: The pay awards to this group of senior staff are effective from 1 April whilst the national pay award is effective from 1 August. Therefore the value of the pot is based on the national pay award effective in August 2018).

To assist it in these tasks, the Committee received:

- Information on the President and Vice-Chancellor's salary as part of a rigorous process of review of performance. Details of the President and Vice-Chancellor's remuneration are contained later in the report and the President and Vice-Chancellor declined to accept any increase in salary;
- performance report and recommendations for salary increases from the President and Vice-Chancellor in relation to the Deputy President and Deputy Vice-Chancellor; the Vice-Presidents and Deans; the Policy Vice-Presidents and the Registrar, Secretary and Chief Operating Officer;
- a summary report from the University's Senior Salary Review Group covering proposals for salary awards to be applied to academic related Grade 9 staff;
- a report from the Director of Human Resources on national pay trends as background data;
- a summary report of the annual salary review for non-clinical professors ;
- a copy of the University's Equal Pay report and Gender Pay Gap report;
- Forward annual plan.

Remuneration Policy for the Senior Leadership Team (2017/18)

The Remuneration Committee is directly responsible for setting the remuneration of the Senior Leadership Team reporting directly to the President and Vice-Chancellor.

Recommendations for other Senior Managers including the Director of Human Resources and the Director of Finance are made via the Senior Salaries Review Group (SSRG) and reported to and approved by the Remuneration Committee.

The Key Management Personnel, as referred to in note 7 of the financial statements, comprises all of the Senior Leadership Team.

Senior Leadership Team *(reporting directly to the President and Vice-Chancellor)*

Name	Role
Professor Dame Nancy J Rothwell	President and Vice-Chancellor
Professor Luke Georghiou	Deputy President and Deputy Vice-Chancellor
Professor Ian Greer	Vice-President and Dean of Biology, Medicine and Health
Professor Keith Brown	Vice-President and Dean of Humanities
Professor Martin Schröder	Vice-President and Dean of Science and Engineering
Professor Colette Fagan	Vice-President for Research
Professor James Thompson	Vice-President for Social Responsibility
Professor Clive Agnew	Vice-President for Teaching, Learning and Students
Mr Will Spinks	Registrar, Secretary and Chief Operating Officer

Elements of Remuneration for the Senior Leadership Team

The table below shows the elements of remuneration for the Senior Leadership Team, the reasons for their inclusion and the way they operate.

Element How element supports our strategy	Operation	Maximum potential value	Performance conditions and assessment
Base salary Supports the recruitment and retention of Senior Leaders with the experience and skills required to deliver the University's strategic plan "Manchester 2020". Salary increases whether consolidated or non-consolidated provide an opportunity to recognise outstanding individual contributions by Senior Leaders.	Base salary, paid monthly, reflects the size of the role (based on Hay evaluation) and its responsibilities, individual performance assessed annually and the skills and experience of the individual. Increases to the President and Vice-Chancellor's base salary are approved by the Remuneration Committee. For all other members of the Senior Leadership Team except the Directors of HR and Finance, recommendations for base pay increases are made by the President and Vice-Chancellor and approved by the Remuneration Committee. Increases are effective from 1 April. The Registrar, Secretary and Chief Operating Officer makes recommendations to the Senior Salaries Review Group (SSRG) for the Directors of HR and Finance. Subsequently reported to and approved by the Remuneration Committee. A national pay increase is effective from 1 August and any other performance increase is effective from 1 October. Base pay increases can be either consolidated (a permanent increase to base salary which is pensionable) or non-consolidated. Non-consolidated increases are not pensionable and are paid as a lump sum shortly after they are awarded.	Increases to base salary are determined annually taking into account: • Individual performance • The scope of the role • Pay levels in comparable organisations • The levels of base salary increases for the staff of the University generally • The financial position of the University and the available budget for increases • Any retention issues In benchmarking base salaries the Committee considers two comparator points being: • The Upper Decile of the results of the UCEA Salary Survey across all Institutions; • The median of the Industrial and Service Sector with a range of 80%-120%. The Upper Decile of the Russell Group is considered appropriate on the basis that the University is one of the largest and most complex institutions with an ambitious agenda. The Director of Human Resources provides the Committee with a report on general salary trends across a range of sectors as background information.	An individual's skills and experience in the role is one of the factors considered when setting base salary levels. Outstanding individual contributions are, from time to time, recognised through increases to base salary. In particular this may be through the award of a non-consolidated increase to base salary. Any such payments are funded from the agreed budget.
Pension Supports recruitment and retention of Senior Leaders in line with market practice in the University sector. Provides flexibility for those who have reached HMRC limits for pension saving.	In general, members of the Senior Leadership Team will be members of an appropriate defined benefit pension arrangement. This will usually be the Universities Superannuation Scheme (USS) but may be the NHS Pension Scheme where appropriate. Where the Senior Leader may be affected by the HMRC limits for pension saving, the University may pay a cash allowance (in line with the contributions the University would have made to the Scheme at no additional cost) in lieu of pension provision. This is dealt with on a case by case basis. Any cash allowance is subject to income tax and NI deductions.	The USS is a hybrid scheme and the NHS Pension Scheme is a defined benefit scheme and the cost to the University of providing the benefits varies depending on the actuarial position of the Scheme. The University currently contributes 18% of base salary to USS (inclusive of 2.1% deficit payment) and 14.3% of base salary to the NHS Pension Scheme.	None applicable.

Elements of Remuneration for the Senior Leadership Team (continued)

Element How element supports our strategy	Operation	Maximum potential value	Performance conditions and assessment
Benefits To attract and retain Senior Leaders by providing benefits in line with market practice in the University sector.	A small range of benefits is available including life cover (which is automatic as it is linked to the pension scheme) and sick pay (six months full pay and six months half pay) in line with all employees. The President and Vice-Chancellor receives private medical insurance.	The University bears the cost of providing benefits.	None applicable.
Remuneration for other employees All employees of the University receive a base salary, benefits consistent with those available to the Senior Leadership Team, and are eligible to participate in the University's pension arrangements. The base salary levels for the Senior Leadership Team reflect their position as some of the most senior employees of the University and are therefore higher than most staff of the University. In addition to receiving the annual cost of living award, Grade 9	academic related staff's salaries are reviewed in October against performance and contribution. Any increases takes into account the level of the annual cost of living award and the University's ability to pay, together with any market/ retention issues. Such awards can either be consolidated and therefore pensionable or non-consolidated and non-pensionable. Grades 1-8 staff receive an annual cost of living award and are eligible for incremental progression. In addition they may be nominated once a year for an award under the University's Recognising Exceptional Performance policy.	Awards can be non-consolidated or a further incremental point. The University uses the Higher Education Role Evaluation (HERA) model to evaluate roles in grades 1 to 8. This translates into a 51 point pay spine with identified grade boundaries defining the minimum and maximum salary for each grade and the incremental progression points. The average salary across all staffing groups (academic and PSS) is £40,862 per annum (£39,084 in 2016/17) and the President and Vice-Chancellors salary is £260,399 per annum (£260,399 in 2016/17). The President and Vice-Chancellor's	salary is 16.2 times greater than £16,035 per annum which is the lowest point on the University's pay spine for 2017/18 (16.9 times in 2016/17). The University monitors any increase in the minimum wage level proposed by the Living Wage Foundation and will adjust relevant salary points on its 51 point pay spine to meet the minimum proposed. The additional President and Vice-Chancellor remuneration disclosures as required by the OFS can be found in note 7 on page 54 of the financial statements.

Approach to recruitment remuneration

Overall, the University aims to recruit Senior Leaders using remuneration packages that are market-competitive and consistent with the existing remuneration structure. In doing so, the University seeks to pay no more than necessary to attract talented individuals to join the University.

Newly recruited Senior Leaders are eligible to receive the same remuneration elements as existing Senior Leaders as set out in the policy table above, namely:

- Salary – set at an appropriate level taking into account the experience and quality of the candidate
- Pension

The University does not expect to make special recruitment arrangements outside the standard policy, but may do so in exceptional circumstances in order to secure the appointment of the right candidate. All salaries at or above £120,000 must be approved by the President and Vice-Chancellor who may consult with the Chair of the Remuneration Committee.

Senior Leaders' service contracts and notice periods

The service contracts and notice periods of the Senior Leadership Team who were in office during the financial year ended 31 July 2018 and who report directly to the Vice-Chancellor are as follows:

Role	Terms	Names
President and Vice-Chancellor	Employed on a seven year fixed term contract which is renewable and is subject to six month notice period. Also holds a contract as Professor of Physiology which is retained when leaves office.	Professor Dame Nancy Rothwell
Deputy President and Deputy Vice-Chancellor	Employed on a five year fixed term contract which is renewable and is subject to a three month notice period. On completion remain employed as a Professor.	Professor Luke Georghiou
Vice-Presidents and Deans	Appointed usually for a fixed five year term of office which is renewable and on completion remain employed as professors by the University but return to previous role. Subject to three month notice periods.	Professor Keith Brown Professor Ian Greer Professor Martin Schröder
Vice-Presidents	Appointed on a fixed five year contracts. Generally subject to a three month notice period. On completion remain employed as a professor.	Professor Clive Agnew Professor Colette Fagan Professor James Thompson
Registrar, Secretary and Chief Operating Officer	Employed on a permanent contract and subject to a three month notice period.	Mr Will Spinks

Policy on termination payments

For the academic roles it is usual for the individual to return to their previous role as a Professor when they complete their term as a member of the Senior Leadership Team. In such cases, their base salary is reviewed at that time and may be adjusted where necessary to reflect their ongoing responsibilities. No additional payments are made in respect of stepping down from the Senior Leadership Team.

The University's overarching aim is to treat departing Senior Leaders fairly, taking into account the circumstances of their departure, but always taking care to ensure that the interests of the University are considered and that there are no rewards for failure.

Senior Leaders are entitled to be paid their Base Salary and contractual benefits (including pension contributions) during the notice period and none have been made during the year. The University has the discretion to pay these as a lump sum benefit in lieu of notice.

In general, no additional payments are made to compensate Senior Leaders when their employment terminates. If in exceptional circumstances a settlement agreement is needed the Committee may make payments it considers reasonable in settlement of potential legal claims (e.g. unfair dismissal). It may include in such payments reasonable reimbursements of legal fees in connection with such agreements (the normal maximum for legal fees for senior managers is £750 + VAT).

Consideration of conditions elsewhere in the University

The Committee is responsible for setting the remuneration of the Senior Leadership Team and approves the base salaries recommended by the Senior Salaries Review Group for professorial staff in Zones B and A (the top two professional zones) and Grade 9 academic related staff. When considering base salary increases for senior staff, the Committee takes careful account of the level of salary increases across the University in general, and the financial position of the University including the budget available for such increases.

History of President and Vice-Chancellor's remuneration

The table below shows the remuneration of the President and Vice-Chancellor over the last five years.

Year (ending 31 July)	Remuneration
2018	£260,399
2017	£260,399
2016	£260,399 *(plus £12,128 supplement in lieu of pension from 1 April to 31 July)*
2015	£256,399 *(plus pension)*
2014	£252,399 *(plus pension)*

Note: From 1 April 2016 the President and Vice–Chancellor was in receipt of a supplement in lieu of the employer pension contribution (shown in the table to the left.) The 2.1% deficit funding into USS and any additional national insurance contribution is deducted from the amount shown. From 1 September 2017 the President and Vice-Chancellor elected not to receive the pension supplement.

Statement of implementation of Remuneration Policy in 2018/19

The Committee intends that remuneration arrangements for 2018/19 will be operated in line with the policy set out above as directed by the Board of Governors and in line with the requirements of the Office for Students and the CUC Code for Higher Education Senior Staff.

Modern slavery and human trafficking statement

This statement is made in accordance with section 54(1) of the Modern Slavery Act 2015 and constitutes our slavery and human trafficking statement for the financial year ending 31st July 2018. This is our third statement under the Act and provides an overview of our continuing progress in this area.

We are a UK Higher Education Institution which provides a wide range of teaching, research and related activities. We are based in Manchester but are a global institution. We have 40,490 students registered on courses in the UK and across the world. We employ 12,470 people and have an annual income of more than £1 billion.

More information about us and our activities is available here: www.manchester.ac.uk

Our actions on modern slavery support one of our three core institutional goals (Goal 3: Social Responsibility) and we have a clear focus in this area:

- Our starting point is a zero tolerance approach to modern slavery and human trafficking and our internal policies and processes support this;
- Understanding our diverse supply base and the wider supply chain on which we rely through supplier engagement;
- Taking an informed risk based approach to prioritise what we do and target our actions;
- Promoting awareness and openness of the issue by sharing our experiences, collaborating within and outside the HE sector, and by taking opportunities to train our colleagues, suppliers, and others.

Our policies and processes

There is a clear chain of accountability for modern slavery; overall responsibility rests with the Board of Governors who have devolved day-to day responsibility for implementing and monitoring the University's approach to the Director of Finance.

We have a zero-tolerance approach to modern slavery and a desire to behave ethically and with integrity in all our business dealings and relationships. We are committed to ensuring that there is no modern slavery or human trafficking in our supply chains or in any part of our business. Our policies and procedures support this approach:

- As part of this commitment we have had an Anti-Slavery and Human Trafficking Policy in place since 2016: http://documents.manchester.ac.uk/list.aspx
- This year we have once again reviewed and updated our standard terms and conditions of business, strengthening our expectations around legal compliance including the requirement to adhere to our own Policy and the Modern Slavery Act 2015.
- The revision of our procurement documentation and processes is continual to ensure that they keep pace with developments in this area. We have embedded sustainable and responsible procurement practices and were the first HEI in the UK to be independently validated as operating at the highest level (Level 5) on the Flexible Framework in 2017. Over the last year we have reviewed the ISO 20400:2017 (Sustainable Procurement) and shared a comparison of this and the Flexible Framework with colleagues in the HE Sector.

We are committed to transparency in what we do and expect the same from our contractors, suppliers and other business partners, and their supply chains. We signed up to the TISC Report (https://tiscreport.org/) the world's largest open data repository of Modern Slavery and Human Trafficking Statements, in 2017. Unfortunately, due to technical issues our statements have not been visible through this portal and during the coming year we will rectify this omission.

Understanding and engaging with our supply chains

We have a large and complex supply chain to support our academic and ancillary activities. We purchase a diverse range of works, goods and services from more than 8,000 suppliers listed on our Finance System. Our suppliers cover almost every category of spend providing us with everything from aeroplanes (for research purposes) to Yorkshire puddings and anything in between. Regardless of what we buy we are committed to acquiring it in a responsible manner.

Understanding our suppliers and their supply chains is an essential part of our approach. During the year we have continued to use our on-line assessment tool to engage directly with all of our suppliers to identify their awareness of modern slavery and human trafficking. Every one of our suppliers and all new suppliers are invited to tell us about impacts arising from their business activities, including slavery within their supply chains. This provides an opportunity for them to tell us how they are addressing these issues. To date almost 1,600 suppliers have filled in this information, and we are using the insights this provides to ensure that we recognise, encourage and support good supply chain practice.

We are pro-active in engaging with our suppliers. In July we updated the on-line tool and amongst the changes were enhancements to the questions asked concerning modern slavery. As part of the refresh we contacted every supplier once again inviting them to update their information. Where suppliers had previously indicated that modern slavery was not an issue for their business the invite was accompanied by a reminder of the importance we attach to this area along with a link to our webpages which contain information on our approach and access to additional information. The revised format of the on-line tool will provide improved information in future years.

During the year we have undertaken a pilot exercise, in collaboration with The University Caterers Organisation (TUCO), in formal supply chain mapping with a small selection of catering suppliers. This proved to be more challenging than envisaged, though the lessons learned will be applied to an extended exercise over the coming year.

As part of our commitment to support our suppliers we hosted, in conjunction with colleagues from Greater Manchester's *Programme Challenger* and *Stop the Traffik*, an event as part of the National Crime Agency Week (14-18 May 2018) on Forced Labour. The session raised awareness of slavery and trafficking focused on the Manchester context and the University's approach. University staff attended alongside representatives from our construction supply chain. Opportunities to network and share experiences followed presentations from the University, the Greater Manchester Combined Authority and a University construction contractor. Feedback was overwhelmingly positive and the event has provided a blueprint for similar sessions in the future.

A risk based approach

We manage our suppliers using a category management model so that we can understand and manage risks within specific categories. Our high level supply chain risk is assessed using the UN Marrakech approach which provides a sound basis to focus our resources and actions. Effort is concentrated on categories and commodities that score highly on this and suppliers in the following areas (if not already captured) which have been highlighted elsewhere as being high-risk: agriculture, hospitality, construction, and staff agencies. Using this approach means we can target our limited resources to understand and promote best practice throughout all tiers of our supply chains.

We have updated our on-line resources this year to provide more help and guidance for our suppliers. In addition, working with our academic colleagues, we have identified that awareness of modern slavery is limited amongst many SME's and we have made available an initial briefing paper to help SME's deal with the issue within their business context. We intend to build on this over the coming year.

We continue to make use of a number of external standards and agencies to provide assurance on labour practices for applicable products and processes. We have maintained Fairtrade status since 2005 and affiliated with the Worker Rights Consortium in 2015. These provide independent sureties on supply chain practice, and we will continue to monitor the suitability of external validation in other areas as well.

As a user of a variety of external framework contracts we are working closely with two locally based procurement consortia: the North West Universities Purchasing Consortium (NWUPC) and TUCO, to understand and manage risks through contract management processes. We have agreed that the formal record of supplier site visits will be available for consortia members, and that future visits will include a visual inspection providing re-assurance around working practices including any signs of slavery. We expect to be able to report this in subsequent years.

Promoting awareness and training

Raising staff awareness of the problem of modern slavery remains a priority. Our award winning staff engagement programme (10,000 Actions) continues to provide access to specific guidance on our purchasing webpages including detailed information on slavery and human trafficking. This has been updated during the year and on-going analysis of our website traffic confirms that these webpages are regularly visited. In addition the Central Procurement Office has provided presentations to staff on the Modern Slavery Act and the University's response to it.

We have continued to build on the opportunities to link our academic research interests with our professional activities in the sphere of modern slavery, human trafficking and broader human rights issues within supply chains. On-going work between our professional procurement function and academic colleagues are proving fruitful and creating additional opportunities to combine research activity alongside practical day-to-day business functions. Often these joint activities provide an excellent opportunity to build effective networks and share with others results and experiences. This approach is unique to Universities and provides a good example of the positive contribution that our staff can make across a range of globally significant issues (including trafficking and slavery) emphasising the University's positive contribution to society more widely.

We actively engage with others in sharing best practice and keeping up to date on slavery and human trafficking considerations within the supply chain. We are heavily involved within Higher Education where our Head of Procurement chairs a sector wide Responsible Procurement Group whose remit includes modern slavery. The University also supports initiatives within our immediate region and was one of the inaugural members of the Greater Manchester Modern Slavery Business Network. This provides an opportunity to share ideas and experiences to tackle trafficking and its impacts within our city.

Specific training has been undertaken by our procurement professionals. Each of them has completed the CIPS Ethical Procurement and Supply course. In addition specific training, on modern slavery and human rights in the supply chain, has been provided to the Central Procurement Office by both *Stop the Traffik* and the *Ethical Trading Initiative*.

Mr Edward M Astle
Chair of the Board of Governors
and Pro Chancellor

Engaging our suppliers

All 8,000 of our suppliers have been invited to access our Supplier Engagement Tool and complete a sustainability action plan. To create a plan, they select issues apparent in their organisation, including those around modern slavery. Achievable actions are then suggested on the Tool to aid them in developing responsible practice and processes within their organisation. They are free to add, or delete actions and provide detail on how they are dealing with issues (including slavery) that impact on their business activities.

This data provides us with a rich source of information to use to help understand our supply chains, focus our activity as well as showcase and share good practice.This infographic shows what this data tells us about our suppliers and what they are doing to combat modern slavery.

Our Supplier Tool

As of 31/07/2018 we know that:

18% 2018
17% 2017
Suppliers have a head office outside the UK

1,595 2018
1,323 2017
Suppliers have engaged with the Tool

1,311 2018
1,066 2017
Suppliers have completed sustainability action plans

22% 2018
22% 2017
Suppliers have >25% of goods/services they provide sourced outside of Europe

33% 2018
33% 2017
Suppliers have a CSR or lead on sustainability in their business

(CSR refers to Corporate Social Responsibility)

Modern Slavery Data

2018	2017	
93%	91%	Businesses are aware of the Modern Slavery Act
5%	4%	Businesses felt modern slavery is an issue for them
72%	70%	Businesses selecting this as an issue are SME
34%	36%	Businesses selecting this issue have >25% of goods/services sourced from outside Europe
16%	18%	Businesses who selected this issue have a head office outside the UK
47%	44%	Businesses who selected this issue have a CSR or lead on sustainability

Supplier Action Plans

	In progress	Completed	Not started	With evidence	Year
Develop a code of conduct which prohibits the use of forced or trafficked labour	12	9	31	4	2017
	17	**21**	**41**	**19**	**2018**
Publish your 'Modern Slavery Act Transparency Statement'	9	7	36	8	2017
	12	**21**	**49**	**18**	**2018**
Provide training for staff on modern slavery	11	3	36	8	2017
	15	**9**	**54**	**16**	**2018**
Engage with your suppliers on modern slavery	10	6	32	7	2017
	17	**13**	**47**	**17**	**2018**

Our High Risk Groups

	Estates and buildings	Computer supplies and services	Catering supplies and services	Year
Number of registered suppliers in each group	94	86	81	2017
	101	**95**	**63**	**2018**
Recognise modern slavery is an issue for their business	6%	6%	6%	2017
	10%	**8%**	**3%**	**2018**

Supplier Actions

There is transparency in our business and in our approach to tackling modern slavery throughout our supply chains, consistent with our disclosure obligations

All NEW suppliers have to confirm their activities to comply with the Modern Slavery Act and sign a statement before approval will be granted.

We are committed to acting ethically and with integrity and transparency in all business dealings and to putting effective systems and controls in place.

Next steps...

We will continue to raise awareness of the issue of modern slavery amongst our suppliers and encourage actions to discourage and remove it from our supply chains

We will continue to encourage our formally contracted suppliers to complete the Tool and aim to have 100% of them do so by next year

We will continue to work collaboratively through regional and national networks to support responsible procurement initiatives and promote a zero tolerance approach to modern slavery within the procurement community

Statement of the Board of Governors' responsibilities for the year ending 31 July 2018

In accordance with the Royal Charter, the Board of Governors of The University of Manchester ('the Board') is responsible for the administration and management of the affairs of the University and is required to present audited financial statements for each financial year.

The Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of The University of Manchester and which enable it to ensure that the financial statements are prepared in accordance with the 'carried forward' powers and duties of previous legislation (Further and Higher Education Act 1992 and the Higher Education Act 2004) and the new powers of the Higher Education and Research Act 2017 during the transition period to 31 July 2019, the Royal Charter, the Accounts Direction issued by the Office for Students, the Terms and conditions of funding for higher education institutions issued by the Office for Students, the Terms and conditions of Research England Grant (and prior to April 2018, the Memorandum of Assurance and Accountability previously agreed with HEFCE), the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2015, and applicable United Kingdom Law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102, as well as reflecting current best practice in public sector corporate governance. In addition, under the terms and conditions of funding for higher education institutions issued by the Office for Students (and prior to April 2018 the Memorandum of Assurance and Accountability agreed with HEFCE), the Board, through its designated office-holder, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the University and of the institutional surplus or deficit and cash flows for that year.

In causing the financial statements to be prepared, the Board has to ensure that:

– suitable accounting policies are selected and applied consistently;

– judgements and estimates are made that are reasonable and prudent;

– applicable UK law and accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

– financial statements are prepared on the going-concern basis unless it is inappropriate to presume that The University of Manchester will continue in operation. The Board is satisfied that the University has adequate resources to continue in operation for the foreseeable future; for this reason the going-concern basis continues to be adopted in the preparation of the financial statements.

The Board has taken reasonable steps to ensure the University:

- has a robust and comprehensive system of risk management, control and corporate governance. This includes arrangements for the prevention and detection of corruption, fraud, bribery and irregularities.

- has regular, reliable, timely and adequate information to monitor performance and track the use of public funds.

- plans and manages its activities to remain sustainable and financially viable.

- informs the Office for Students of any material change in its circumstances, including any significant developments that could impact on the mutual interests of the University and the Office for Students.

- uses public funds for proper purposes and seeks to achieve value for money from public funds.

- complies with the mandatory requirements relating to audit and financial reporting, set out in the Office for Students Audit Code of Practice and in the Office for Students annual accounts direction.

The governors who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the University's auditor is unaware; and each governor has taken all the steps that he or she ought to have taken to be aware of any relevant audit information and to establish that the University's auditors are aware of that information.

The Board of Governors is responsible for the maintenance and integrity of the corporate and financial information included on the University's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

EMAstle

Mr Edward M Astle
Chair of the Board of Governors and Pro Chancellor

Independent Auditor's Report to the Board of Governors of The University of Manchester

Opinion

In our opinion:

- The University of Manchester's group financial statements and parent institution's financial statements (the "financial statements") give a true and fair view of the state of the group's and of the institution's affairs as at 31 July 2018, and of the group's and parent institution's income and expenditure, gains and losses, changes in reserves for the year then ended, and of the Group's cash flows for the year then ended;
- the financial statements have been properly prepared in accordance United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education, and relevant legislation.

We have audited the financial statements of The University of Manchester which comprise:

Group	Parent institution
Balance sheet as at 31 July 2018	Balance sheet as at 31 July 2018
Consolidated statement of comprehensive income	Statement of comprehensive income
Consolidated statement of changes in reserves	University statement of changes in reserves
Consolidated statement of cash flows	Related notes 1 to 32 to the financial statements, including a statement of principal accounting policies
Related notes 1 to 32 to the financial statements, including a statement of principal accounting policies	

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The financial reporting standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent institution in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Board of Governors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Board of Governors has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent institution's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	• Risk of fraud in revenue recognition. • Risk of error in accounting for the pension schemes and the Universities Superannuation Scheme deficit liability.
Audit scope	• We performed an audit of the complete financial information of one component. • The component where we performed full audit procedures accounted for 99.6% of Total income, 85.7% of Surplus before tax and 98.1% of Total assets.
Materiality	• Overall group materiality of £10.5m which represents 1% of Total income.

Independent Auditor's Report to the Board of Governors of The University of Manchester

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Risk of fraud in revenue recognition *Refer to the Statement of Principal Accounting Policies (page 42) and Notes 1, 2, 3 and 4 of the Financial Statements.* Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. There is inherently more judgement applied in determining the amount and timing of income to be recognised in respect of capital grants, tuition fees, and research grants and the other income streams of supplies and services and 'other' income. As such we focussed our work on the following key judgements: • Capital grant income and research and education contracts - judgement is used to determine which period the award should be recognised and can be dependent on satisfaction of performance conditions. • Other income: specifically the income streams of supplies and services and 'other' - the varied nature and size of the income streams creates an opportunity to apply judgement in the period the income is recognised in. • Overseas tuition fee income – the timing of certain courses which span the year end create judgement in determining which period the income should be recognised in. Since there is no material judgement associated with the recognition of the University's funding council grant income, we determined that the risk of revenue recognition is not significant within this area. The risk has remained consistent with the previous year.	To address the identified risks we performed the following procedures: • Tested capital grant income to assess performance related conditions and recognition in the correct year. • For research income we assessed and tested the design and implementation of controls in respect of project reviews and reconciliations. • Tested for any evidence of clawback of balances relating to funding body grants or research income. • Performed cut off testing for transactions before and after the year end to confirm that they had been recorded in the correct financial year. • Tested manual journals raised at year end and posted outside of the trial balance. • Performed substantive analytical review procedures relating to tuition fee income, corroborating the level of income to student numbers. We performed full scope audit procedures over this risk area in one location, which covered 99.6% of the risk amount.	Our testing did not identify any material misstatements in respect of revenue and expenditure recognition. Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the University's financial position.

Independent Auditor's Report to the Board of Governors of The University of Manchester

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Risk of error in accounting for the pension schemes and the USS deficit liability The University accounts for its participation in the University of Manchester Superannuation Scheme (UMSS) and the Great Manchester Pension Fund (GMPF) in accordance with defined benefit accounting. The volatility in global investment markets and the associated impact on scheme surpluses / deficits creates the risk of failure to maintain a financially robust pension provision for staff. Accounting for these schemes involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. The information disclosed is based on the actuarial reports issued to the University by the actuary. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. Participation in the Universities Superannuation Scheme (USS) is accounted for as a defined contribution scheme as insufficient information is available to identify universities' share of the underlying assets and liabilities. A liability is recognised in the balance sheet for the University's commitment under the USS Deficit Reduction Plan. There is judgement to be applied to the valuation of the USS provision, in particular through the selection of the appropriate discount rates applied to future cash flows, salary inflation assumptions and staff changes.	• We liaised with the auditors of the Greater Manchester Pension Fund to obtain assurances over the information supplied to the actuary in relation to the University; • We assessed the work of GMPF and UMSS actuaries, including the assumptions they have used by engaging internal actuarial specialists to provide input on the consistency and appropriateness of assumptions underpinning the valuation of the pension schemes; • We reviewed and tested the accounting entries and disclosures made within the University's financial statements in relation to FRS 102; and • In respect of USS, we have centrally undertaken a review of the pension provision spreadsheet made available to institutions by the British Universities Finance Director Group, to ensure we are efficient in our consideration of the basis on which the calculations are made across our client base. We then considered the reasonableness of the discount rate selected by management to determine the final provision value in the financial statements.	Based on procedures completed, the pension fund liabilities as at 31 July 2018 disclosed in the financial statements, including the USS deficit provision are fairly stated. **GMPF** Review of assumptions underpinning the pension scheme valuation by internal EY actuarial specialists confirmed that the assumptions were all considered to sit centrally within the expected range. We reconciled the actuarial reports to the accounting entries included in the financial statements with no matters identified. We liaised with the auditors of Greater Manchester Pension Fund to obtain assurances over the information supplied to the actuary in relation to the University. This also included assurances over the asset data for the whole pension fund, as at 31 March 2018. There were no matters identified from review of the responses received. Internal EY actuarial specialists performed a roll forward review of the asset valuation to 31 July 2018. This work identified that the asset value used by the actuary may be understated by £2.4m. The difference is due to the estimation uncertainty inherent in calculating the estimated value of pension fund asset values as at 31 July and due to the timing of the work. The estimated understatement is not material and is within an expected range. On the basis of the above procedures, we conclude that the pension liability is fairly stated. **USS** We agreed the USS deficit provision to the output of the model provided by the British Universities Finance Directors Group (BUFDG). In testing this, we also confirmed inputs to the model to supporting records. Internal EY actuarial specialists confirmed that the discount rate underpinning the USS provision was consistent with expectations. No additional provision has been included in the financial statements for the impact of the 31 July 2017 triennial valuation of USS. Current indications are that it is likely to result in an increase in both the deficit and the cost of the future accrual. A statutory consultation is underway and likely to conclude late 2018 / early 2019.

Independent Auditor's Report to the Board of Governors of The University of Manchester

Risk	Our response to the risk	Key observations communicated to the Audit Committee
		In respect of the USS deficit recovery provision we have reviewed the disclosures in respect of the sector wide USS pension scheme and agreed these to information provided by USS and confirmed they are consistent with guidance provided by the British Universities Finance Director Group (BUFDG). We have no findings to report in this area and conclude that the provision is fairly stated. **UMSS** Review of assumptions underpinning the pension scheme valuation by internal EY actuarial specialists confirmed that the assumptions predominantly sat centrally within the expected range. We reconciled the actuarial reports to the accounting entries included in the financial statements with no matters identified. We performed enhanced procedures this year to review the valuation of pension fund assets used by the actuary in producing the actuarial valuation. As part of this work, we have compared the estimated value of pension fund assets used by the actuary with the actual value of assets confirmed directly with investment managers at the year-end. We also performed procedures to consider the reasonableness of the asset valuations provided, including review of internal controls reports for investment managers and additional valuation review procedures. This identified that the estimated value of fund assets used by the actuary is understated by £2.9m. The difference is due to the estimation uncertainty inherent in calculating the actuarial valuation and the fact that asset valuation confirmations are not available to the actuary at the time the work is undertaken. The estimated understatement represents less than 0.5% of the pension fund assets. Given the comparatively low value of the understatement we have not requested that management obtain a revised valuation from the actuary and agree with their view that this is not material and that no adjustment is required within the financial statements. We have reported this as an unadjusted audit difference.

Independent Auditor's Report to the Board of Governors of The University of Manchester

In the prior year, our auditor's report included a key audit matter in relation to the risk of impairment and appropriate recognition of Property, Plant and Equipment. In the current year we have not identified any indicators of impairment as confirmed by management and there has not been any identified requirement for accelerated depreciation due to ongoing estate development. On this basis, the risk of material misstatement in this area is reduced.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group wide controls, changes in the business environment and other factors such as recent Internal audit results when assessing the level of work to be performed at each entity.

The group's subsidiaries are described in Note 14 to the financial statements. We view the University and each of the subsidiaries as being individual components as each has its own processes and controls.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the reporting components of the Group, we selected one component (the University), which represents the principal business unit within the Group. We performed an audit of the complete financial information of the University ("full scope component") based on its size or risk characteristics.

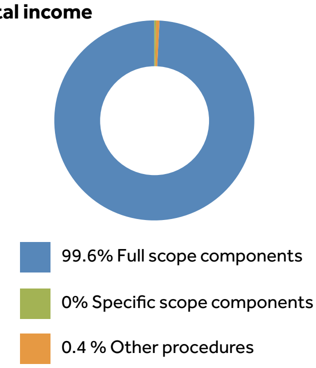
Except as explained below, we did not perform any audit procedures in respect of the other components because we did not consider there to be any accounts that had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile. This was consistent with the approach that we followed in the previous year.

The reporting component where we performed audit procedures accounted for 99.6% (2017: 98.8%) of the Group's Total income, 85.7% (2017: 100%) of the Group's Surplus before tax and 98.1% (2017: 98%) of the Group's Total assets.

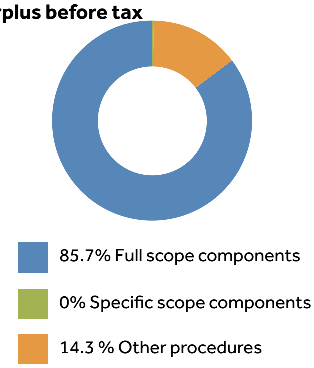
Of the remaining 20 components that together represent 0.4% of the Group's total income, none are individually greater than 1% of the Group's total income. For these components, we performed other procedures, including analytical review and testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

The charts below illustrate the coverage obtained from the work performed by our audit teams.

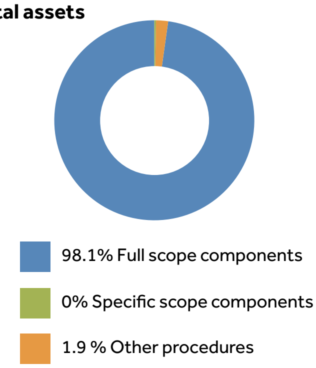
Total income



Surplus before tax



Total assets



Changes from the prior year

There has been no change in the scope of component audit coverage from the previous year.

Involvement with component teams

All audit work performed for the purposes of the audit was undertaken by the Group audit team.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £10.5 million (2017: 9.5 million), which is 1% (2017: 1%) of total income. We believe that total income provides us with a reasonable basis for determining materiality as this is the most relevant performance measure to the users of Higher Education financial statements.

During the course of our audit, we reassessed initial materiality and increased it to the level above to be based on outturn financial performance rather than forecast.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2017: 75%) of our planning materiality, namely £7.9m (2017: £7.5m). We have set performance materiality at this percentage due to our assessment of the overall control environment and our experience of audit differences arising during previous audits.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.5m (2017: £0.5m), which is set at 5% of planning materiality, as

Independent Auditor's Report to the Board of Governors of The University of Manchester

well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report 1 to 32 of the Financial Statements 2018 including the Chair's foreword, Review of the year, Key performance indicators, Financial review, The University and public benefit, Corporate governance statement, Remuneration Committee Report and Modern slavery and human trafficking statement, other than the financial statements and our auditor's report thereon. The Board of Governors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Office for Students Terms and conditions of funding for higher education institutions

In our opinion, based on the work undertaken in the course of the audit, in all material respects:

- funds from whatever source administered by The University of Manchester have been properly applied to those purposes and managed in accordance with relevant legislation;
- funds provided by the Office for Students and Research England have been applied in accordance with the applicable Terms and conditions attached to them; and
- the requirements of the Office for Students accounts direction for the relevant year's financial statements have been met.

Responsibilities of the Board of Governors

As explained more fully in the Statement of the Board of Governors' responsibilities statement set out on page 34, the Board of Governors is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view in accordance, and for such internal control as the Board of Governors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Governors is responsible for assessing the group and parent institution's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the group or the parent institution or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are the Office for Students Terms and conditions of funding for higher education institutions and the Higher Education and Research Act 2017.
- We understood how The University of Manchester is complying with those frameworks by documenting and understanding oversight by those charged with governance, considering the potential for override of controls or other inappropriate influence over the financial reporting process, the culture of honesty and ethical behaviour and whether a strong emphasis is placed on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by management's journal entries or bias in the use of judgements and estimates.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of the Directorate of Legal Affairs and Board Secretariat and management, inspecting the work performed by internal audit, reading the minutes of the Finance Committee, Board of Governors and Audit Committee, testing manual journal entries and testing estimates for unexplained changes in assumptions.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation of the audit committee, we were appointed as auditors by the Board of Governors and signed an engagement letter dated 23 April 2015. We were appointed to audit the financial statements for the year ending 31 July 2015 and subsequent financial periods.

- The period of total uninterrupted engagement including previous renewals and reappointments is 4 years, covering the years ending 2015 to 2018.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent institution and we remain independent of the group and the parent institution in conducting the audit.

- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

This report is made solely to the Board of Governors, as a body, in accordance with the Charters and Statutes of The University of Manchester. Our audit work has been undertaken so that we might state to the Board of Governors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board of Governors as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst and Young LLP

Ernst & Young LLP, Statutory Auditor
Birmingham
23 November 2018

The maintenance and integrity of The University of Manchester's website is the responsibility of the Board of Governors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Financial Statements

For the year ended 31 July 2018

Statement of principal accounting policies

1. Basis of preparation

These financial statements have been prepared in accordance with the 'carried forward' powers and duties of previous legislation (Further and Higher Education Act 1992 and the Higher Education Act 2004) and the new powers of the Higher Education and Research Act 2017 during the transition period to 31 July 2019, the Royal Charter, the Accounts Direction issued by the Office for Students (OfS), the Terms and conditions of funding for higher education institutions issued by the Office for Students, the Terms and conditions of Research England Grant (and prior to April 2018 the Memorandum of Assurance and Accountability agreed with HEFCE), the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education (2015) and in accordance with Financial Reporting Standard (FRS) 102. The University is a public benefit entity and therefore has applied the relevant public benefit requirement of the applicable UK laws and accounting standards.

The University's activities, together with the factors likely to affect its future development, performance and position, are set out in the Director of Finance's Financial Review of the year which forms part of the Board of Governors' Report. The Board of Governors' Report also describes the financial position of the University, its cash flows, liquidity position and borrowing facilities. The University's objectives, policies and processes for managing its capital; its financial risk management objectives and its exposure to credit and liquidity risks are set out on page 21.

The Board of Governors has a reasonable expectation that the University has adequate resources to continue in operational existence for the foreseeable future. Thus it continues to adopt the going concern basis of accounting in preparing the annual financial statements.

2. Basis of Accounting

The financial statements have been prepared under the historical cost convention, with the exception of:

- Certain investment properties which have been revalued to fair value as at the year ended 31 July 2018.
- Financial instruments are stated at fair value in accordance with FRS 102.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the University operates.

The University has taken the exemption under 1.12 (b) of FRS 102 to not produce a cash flow statement for the University as it is the ultimate parent entity.

3. Basis of Consolidation

The consolidated financial statements include the University and all its subsidiaries for the financial year to 31 July 2018. The results of subsidiaries acquired or disposed of during the period are included in the Consolidated Statement of comprehensive income from the date of acquisition, being the date on which the Group obtains control of the entity, or up to the date of disposal. Intra-group transactions are eliminated on consolidation.

The consolidated financial statements do not include the income and expenditure of the Students' Union as the University does not exert control or dominant influence over policy decisions.

Associated companies and joint ventures are accounted for using the equity method.

4. Income recognition

Income from the sale of goods or services is credited to the Statement of comprehensive income when the goods or services are supplied to the external customers or the terms of the contract have been satisfied.

Fee income is stated gross of any expenditure which is not a discount and credited to the Statement of comprehensive income over the period in which students are studying. Where the amount of the tuition fee is reduced by a discount, income receivable is shown net of the discount. Bursaries and scholarships are accounted for gross as expenditure and not deducted from income.

Grant funding
Grant funding including funding council block grants, research grants from government sources, grants (including research grants) from non-government sources are recognised as income when the University is entitled to the income and any performance related conditions have been met. Income received in advance of any performance related condition being met is recognised as deferred income within creditors on the balance sheet and released to income as the conditions are met.

Capital grants
Capital grants are recognised in income when the University is entitled to the funds subject to any performance related conditions being met.

Donations and endowments
Donations and endowments without performance related conditions are non exchange transactions. Donations and endowments with donor imposed restrictions are recognised in income when the University is entitled to the funds. For donations with restrictions, income is retained within the restricted reserve until such time that it is utilised in line with such restrictions at which point the income is released to general reserves through a reserve transfer.

Donations with no restrictions are recognised in income when the University is entitled to the income.

Investment income and appreciation of endowments is recorded in income in the year in which it arises and as either restricted or unrestricted income according to the terms of the restriction applied to the individual endowment fund.

There are four main types of donations and endowments identified within reserves:

1. Restricted donations – the donor has specified that the donation must be used for a particular objective.

2. Unrestricted permanent endowments - the donor has specified that the fund is to be permanently invested to generate an income stream for the general benefit of the University.

3. Restricted expendable endowments - the donor has specified a particular objective other than the purchase or construction of tangible fixed assets, and the University can convert the donated sum into income.

4. Restricted permanent endowments - the donor has specified that the fund is to be permanently invested to generate an income stream to be applied to a particular objective.

Donations of fixed assets are included within income. The income recognised is valued using a reasonable estimate of their gross value or the amount actually realised. Donated tangible fixed assets are valued and accounted for as fixed assets under the appropriate fixed asset category.

5. Intra-group transactions

Gains or losses on any intra-group transactions are eliminated in full. Amounts in relation to debts and claims between undertakings included in the consolidation are also eliminated.

Balances between the University and its associates and joint ventures are not eliminated. Normal trading transactions that are not settled by the balance sheet date are included as current assets or liabilities. Any gains or losses are included in the carrying amount of assets of either entity, the part relating to the Institution's share is eliminated.

6. Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised within surplus before tax in the Statement of comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency, Sterling, at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

7. Tangible fixed assets

Tangible fixed assets are stated at cost or, in the case of certain land and buildings and heritage assets at deemed cost, less accumulated depreciation and accumulated impairment losses. Certain items of fixed assets that had been revalued to fair value on or prior to the date of transition to the 2015 FE HE SORP, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Where parts of a tangible fixed asset have different useful lives, they are accounted for as separate items of fixed assets (component accounting).

Land and buildings
Land and buildings are stated at cost or at deemed cost.

Where a property comprises two or more major components with substantially different useful economic lives (UELs), each component is accounted for separately and depreciated over its individual UEL. Expenditure relating to subsequent replacement of components is capitalised as incurred.

Major enhancements to existing buildings at a cost of more than £150,000 are capitalised and depreciated over their expected UEL, or less if the leasehold is shorter.

Depreciation is charged by component on a straight line basis over the estimated useful economic life of each component.

Useful economic lives for individual components of land and buildings are as follows:

Property Portfolio	**Years**
Structure (Academic, research, residential)	100 - 200
Structure (Sport, recreational, administrative)	20 – 50
Fit-Out (Academic, research, residential)	25 – 50
Fit-Out (Sport, recreational, administrative)	2 – 20
Mechanical and electrical services	10 – 35
New Builds	**Years**
Structure	100
Fit-Out	30
Mechanical and electrical services	20
Enhancements	**Years**
Structure	50
Fit-Out	30
Mechanical and electrical services	20

Freehold land is not depreciated. Leasehold land is depreciated over the life of the lease where the lease is for less than 50 years.

Buildings under construction are included at cost, based on the value of architect's certificates and other costs incurred at 31 July 2018. They are not depreciated until they are brought into use.

Equipment
Individual items of equipment and groups of functionally dependent items costing more than £50,000 are capitalised at cost. All other items are written off to the income and expenditure account in the year of acquisition.

Computer equipment consists of long-lived capital assets that normally are technological in nature and are the basis of the University's information/connectivity infrastructure which exceed the £50,000 threshold. External specialist cost to bring the equipment into use will be considered as part of the asset. This includes all hardware, software, and cabling associated with University-wide systems.

Capitalised equipment is depreciated on a straight line basis over its expected useful economic life, generally assumed to be 3 years. Equipment acquired for a specific funded project is depreciated over its expected useful life which ordinarily equates to the term of the project.

Impairment
A review for impairment of a tangible fixed asset is carried out if events or changes in circumstances indicate that the carrying amount of the tangible fixed asset may not be recoverable.

Maintenance
The full costs of repairs and routine corrective maintenance on tangible fixed assets are charged against revenue in the year in which they are incurred.

Assets held for resale
Tangible fixed assets surplus to requirements are held at the lower of cost and net realisable value.

Borrowing costs
Borrowing costs are recognised as expenditure in the year in which they are incurred. The University has opted not to capitalise borrowing costs.

8. Heritage assets

Heritage assets are stated at cost or deemed cost. Works of art and other valuable artefacts valued over £50,000 have been capitalised and recognised at the cost or value of the acquisition, where such a cost is reasonably obtainable.

Heritage assets are not depreciated since their long economic life and high residual value mean that any depreciation would not be material. The assets are subject to an annual impairment review in accordance with applicable accounting standards.

Where heritage assets have not been capitalised, details of the nature and age of these assets are disclosed.

9. Leases

Leases in which the University assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease and the corresponding lease liabilities are initially recognised at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Leased assets acquired by way of finance lease are depreciated over the duration of the lease.

Costs in respect of operating leases are charged on a straight-line basis over the lease term. Any lease premiums or incentives are spread over the minimum lease term.

10. Goodwill

Goodwill arising on consolidation is based on the difference between the fair value of the consideration given for the undertaking acquired and the fair value of its separable net assets at the date of acquisition. Goodwill is amortised over its estimated life which is usually 5 years (or a maximum of 10 years if unable to estimate reliably).

Positive purchased goodwill is capitalised and classified as an asset on the balance sheet.

11. Intangible assets

Purchased Software Costs
Software costs are capitalised if externally purchased software and the wholly attributable external implementation costs as set out below exceed the £50,000 threshold.

External costs, associated with the application development and implementation phases are capitalised. This may involve the acquisition of computer equipment or third party software.

Costs to develop or obtain software that allows for access or conversion of old data by new information systems are also capitalised.

Training costs are not implementation costs and are expensed as incurred.

External costs in respect of upgrades and enhancements will be capitalised only if the expenditure results in additional functionality.

Internally-developed software and web-development costs
Design and content costs relating to the development of internal software and websites to support specific teaching or training courses, or for specific research projects, as well as design and content costs for websites that are the general use of the institution and its staff are written off as incurred.

Impairment
A review for impairment of an intangible asset is carried out if events or changes in circumstances indicate that the value of the intangible asset may not be recoverable.

12. Subsidiary undertakings, associate undertakings and joint ventures

In the University balance sheet investments in subsidiaries are stated at cost less provision for impairment. In the consolidated financial statements, investments in associated undertakings are stated at the University's share of their net assets. The University accounts for its share of joint ventures using the equity method. The University accounts for its share of transactions from joint operations and jointly controlled assets in the Statement of comprehensive income.

13. Investment properties

Investment property is land and buildings held for rental income or capital appreciation rather than for use in delivering services.

Investment properties are measured initially at cost and subsequently at fair value with movements recognised within the surplus before tax in the Statement of comprehensive income. Investment properties are not depreciated but are revalued or reviewed annually according to market conditions as at 31 July each year.

14. Financial instruments

The University has chosen to apply the provisions of sections 11 and 12 of FRS 102 in full. Financial assets and financial liabilities are recognised in the University's balance sheet when the University becomes a party to the contractual provisions of the instrument. A financial asset and a financial liability are offset only when there is a legally enforceable right to set off the recognised amounts and an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The University's financial assets and liabilities all meet the criteria for basic financial instruments prescribed within FRS 102 Section 11.8. All financial assets and liabilities are initially recognised at the transaction price plus any additional directly attributable transaction costs. They are subsequently measured as follows:

Investments
Investments within the scope of Section 11 of FRS 102 (therefore excluding investments in subsidiaries, associates and joint ventures) are recognised initially at fair value which is normally the transaction price (but excludes any transaction costs, where the investment is subsequently measured at fair value through the Statement of comprehensive income). Subsequently, they are measured at fair value if the investment is publicly traded or their fair value can otherwise be measured reliably with the changes in fair value recognised in the Statement of comprehensive income. All other investments are measured at cost less impairment.

Short-term debtors and creditors
Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the Statement of comprehensive income in other operating expenses.

Loan notes receivable or payable
Debt instruments, including loan notes, are basic financial instruments and are initially recorded at the transaction price, net of transaction costs. Subsequently, they are measured at amortised cost using the effective interest method. Debt instruments that are receivable or payable within one year are not discounted.

15. Stocks

Stocks are stated at the lower of their cost and net realisable value. Where necessary, provision is made for obsolete, slow-moving and defective stocks.

16. Cash and cash equivalents

Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty.

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value. Deposit investments are deemed to be cash equivalents if they have a maturity of three months or less from the date of acquisition.

17. Provisions, contingent liabilities and contingent assets

Provisions are recognised when the University has a present legal or constructive obligation as a result of a past event; it is probable that a transfer of economic benefit will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

A contingent liability arises from a past event that gives the University a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the University. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

A contingent asset arises where an event has taken place that gives the University a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the University.

Contingent assets and liabilities are not recognised in the Balance Sheet but are disclosed in the notes.

18. Accounting for retirement benefits

The four principal schemes for the University's staff are the Universities Superannuation Scheme ('USS'), the NHS Pension scheme ('NHSPS'), the University of Manchester Superannuation Scheme ('UMSS') and the Greater Manchester Pension Fund ('GMPF'). All four schemes are defined benefit schemes. All are externally funded, with the assets of the schemes held separately from those of the group, in separate trustee administered funds. With the exception of NHSPS, each fund has a full valuation every three years carried out by professionally qualified independent actuaries.

Pension costs are assessed on the latest actuarial valuations of the Schemes and are accounted for on the basis of FRS 102.

Defined contribution plans
A defined contribution plan is a post-employment benefit plan under which the University pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

Defined benefit plans
UMSS and GMPF schemes are accounted for as defined benefit plans under FRS 102. A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Under defined benefit plans the University's obligation is to provide the agreed benefits to current and former employees, and actuarial risk (that benefits will cost more or less than expected) and investment risk (that returns on assets set aside to fund the benefits will differ from expectations) are borne in substance by the University.

The University should recognise a liability for its obligations under defined benefit plans net of plan assets. This net defined benefit liability is measured as the estimated amount of benefit that employees have earned in return for their service in the current and prior periods, discounted to determine its present value, less the fair value (at bid price) of plan assets. The calculation is performed by a qualified actuary using the projected unit credit method.

Where the calculation results in a net asset, recognition of the asset is limited to the extent to which the University is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Multi-employer pension schemes
Of the four schemes, USS and NHSPS are both multi-employer schemes. Because of the mutual nature of the schemes, the schemes' assets are not hypothecated to individual institutions and scheme-wide contribution rates are set. The University is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the two schemes on a consistent and reasonable basis. Therefore, as required by FRS 102, these schemes are accounted for as if they are defined contribution plans. As a result, the amount charged to the Statement of comprehensive income represents the contributions payable to the scheme in respect of the accounting period. As a contractual commitment is in place with USS to fund past deficits on the scheme, a liability is recorded within provisions in accordance with FRS 102.

19. Employment benefits

Short term employment benefits such as salaries and compensated absences are recognised as an expense in the year in which the employees render service to the University. Any unused benefits are accrued and measured as the additional amount the University expects to pay as a result of the unused entitlement.

20. Taxation status

The University is an exempt charity within the meaning of Schedule 3 of the Charities Act 2011. It is therefore a charity within the meaning of Paragraph 1 of Schedule 6 to the Finance Act 2010 and accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 287 of the Corporation Tax Act 2009 (CTA 2009) and Sections 478-488 of the Corporation Tax Act 2010 (CTA 2010) or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

The University receives no similar exemption in respect of Value Added Tax (VAT). Irrecoverable VAT on expenditure (revenue and capital) is included in the costs of such expenditure. Any irrecoverable VAT allocated to fixed assets is included in their cost.

The University's subsidiary companies are subject to Corporation Tax and VAT in the same way as any commercial organisation.

21. Deferred taxation

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax in the future, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets and liabilities are not discounted.

22. Reserves

Reserves are classified as restricted or unrestricted.

Restricted endowment reserves include balances which, through endowment to the University, are held either as a permanently restricted fund where the University must hold the fund to perpetuity or as an expendable endowment where the capital can be spent.

Other restricted reserves include balances through which the donor has designated a specific purpose and therefore the University is restricted in the use of these funds.

23. Agency arrangements

Where the University receives and disburses funds as paying agent on behalf of a funding body for which the University is exposed to minimal risk or enjoys minimal economic benefit related to the transaction, then the related income and expenditure is excluded from the Statement of comprehensive income. Details are disclosed within note 32 'Amounts disbursed as agent'.

24. Significant estimates and judgements

In the process of applying these accounting policies, the University is required to make certain estimates, judgements and assumptions that management believe are reasonable based on the information available. These are reviewed on a regular basis by the University's senior management team. Significant estimates and material judgements used in the preparation of the financial statements are as follows:

Recoverability of debtors
The provision for doubtful debts is based on our estimate of the expected recoverability of those debts. Assumptions are made based on the level of debtors which have defaulted historically, coupled with current economic knowledge. The provision is based on the current situation of the customer, the age profile of the debt and the nature of the amount due.

Investment properties
Valuations are undertaken every five years by an independent external team of chartered surveyors. This is then updated annually by senior management based on the current tenant rents and an estimate of the rental yield going forward.

Impairments
Management make judgements as to whether any indicators of impairment are present for any of the University's assets.

Provisions
Management apply judgement to arrive at the best estimate for any obligation required. The amount recognised as a provision is management's best estimate of the present value of the amount required to settle the obligation. To arrive at this amount management assess the likelihood and extent of any future settlement and make judgements based on these.

Taxation
The University establishes provisions based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience with previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies.

Retirement benefit obligations
The University operates within four pension schemes. Two of these schemes are accounted for as defined benefit schemes. These are the University of Manchester Superannuation Scheme ('UMSS') and the Greater Manchester Pension Fund ('GMPF'). Actuarial valuations are carried out as determined by the trustees annually. Pension costs under FRS 102 are based upon the latest actuarial valuation, which is based on assumptions agreed by management following actuarial advice. These assumptions are documented within note 25.

The University also operates within two schemes which are accounted for as defined contribution schemes, the Universities Superannuation Scheme ('USS') and the NHS pension scheme ('NHSP'). These are accounted for as defined contribution schemes as insufficient information is available to identify the University's share of the underlying assets and liabilities.

As the University is contractually bound to make deficit recovery payments to USS, this is recognised as a liability on the balance sheet. The provision is currently based on the USS deficit recovery plan agreed after the 2014 actuarial valuation, which defines the deficit payment required as a percentage of future salaries until 2031. These contributions will be reassessed within each triennial valuation of the scheme. The provision is based on management's estimate of expected future salary inflations, changes in staff numbers and the prevailing rate of discount. The rationale for using the 2014 valuation and the financial risks pertaining to the 2017 valuation, which is not yet complete, are set out in note 25(a).

Consolidated statement of comprehensive income

Year ended 31 July 2018

	Notes	Consolidated Year Ended 31 July 2018 £'000	Consolidated Year Ended 31 July 2017 £'000	University Year Ended 31 July 2018 £'000	University Year Ended 31 July 2017 £'000
Income					
Tuition fees and education contracts	1	**462,845**	449,172	**462,845**	432,314
Funding body grants	2	**127,126**	133,890	**127,126**	133,890
Research grants and contracts	3	**298,714**	262,117	**298,714**	262,117
Other income	4	**151,432**	143,561	**147,178**	147,745
Investment income	5	**8,044**	7,543	**8,273**	7,819
Donations and endowments	6	**10,999**	12,713	**10,999**	12,713
Total income		**1,059,160**	1,008,996	**1,055,135**	996,598
Expenditure					
Staff costs	7	**537,408**	516,748	**524,649**	504,378
Other operating expenses	8	**388,641**	353,999	**405,105**	352,851
Depreciation and amortisation	11 &12	**78,438**	83,421	**77,474**	82,331
Interest and other finance costs	9	**25,129**	26,306	**25,127**	26,212
Total expenditure		**1,029,616**	980,474	**1,032,355**	965,772
Surplus before other gains and share of operating surplus of associates		**29,544**	28,522	**22,780**	30,826
Gain on disposal of fixed assets		**331**	1,548	**331**	-
Gain on investments (including investment properties)		**12,883**	31,784	**13,696**	33,243
Share of operating surplus in associate	15	**174**	1,616	**-**	-
Surplus before tax		**42,932**	63,470	**36,807**	64,069
Taxation	10	**127**	(113)	**(31)**	-
Surplus after tax		**43,059**	63,357	**36,776**	64,069
Non controlling interest in subsidiary undertakings for the year		**-**	189	**-**	-
Surplus for the year		**43,059**	63,546	**36,776**	64,069
Other comprehensive income					
Actuarial gain in respect of pension schemes	25	**59,166**	31,360	**59,166**	31,360
Total comprehensive income for the year		**102,225**	94,906	**95,942**	95,429
Endowment comprehensive income for the year		**12,895**	25,372	**12,895**	25,372
Restricted comprehensive income for the year		**9,189**	18,360	**9,189**	18,360
Unrestricted comprehensive income for the year		**80,141**	51,174	**73,858**	51,697
		102,225	94,906	**95,942**	95,429

All items of income and expenditure relate to continuing activities

Consolidated statement of changes in reserves

Year ended 31 July 2018

(a) Consolidated	Income and expenditure account			Total excluding non controlling interest	Non controlling interest	Total
	Endowment	Restricted	Unrestricted			
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1st August 2017	222,197	30,945	1,361,401	1,614,543	-	1,614,543
Surplus/(deficit) from the income and expenditure statement	12,895	50,902	(20,738)	43,059	-	43,059
Other comprehensive income	-	-	59,166	59,166	-	59,166
Release of restricted funds spent in year	-	(41,713)	41,713	-	-	-
Total comprehensive income for the year	12,895	9,189	80,141	102,225	-	102,225
Balance at 31 July 2018	**235,092**	**40,134**	**1,441,542**	**1,716,768**	**-**	**1,716,768**

	Income and expenditure account			Total excluding non controlling interest	Non controlling interest	Total
	Endowment	Restricted	Unrestricted			
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1st August 2016	196,825	12,585	1,310,227	1,519,637	189	1,519,826
Surplus from the income and expenditure statement	25,372	20,006	18,168	63,546	(189)	63,357
Other comprehensive income	-	-	31,360	31,360	-	31,360
Release of restricted funds spent in year	-	(1,646)	1,646	-	-	-
Total comprehensive income for the year	25,372	18,360	51,174	94,906	(189)	94,717
Balance at 31 July 2017	**222,197**	**30,945**	**1,361,401**	**1,614,543**	**-**	**1,614,543**

(b) University	Income and expenditure account			Total excluding non controlling interest	Non controlling interest	Total
	Endowment	Restricted	Unrestricted			
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1st August 2017	222,197	30,945	1,323,654	1,576,796	-	1,576,796
Surplus/(deficit) from the income and expenditure statement	12,895	50,902	(27,021)	36,776	-	36,776
Other comprehensive income	-	-	59,166	59,166	-	59,166
Release of restricted funds spent in year	-	(41,713)	41,713	-	-	-
Total comprehensive income for the year	12,895	9,189	73,858	95,942	-	95,942
Balance at 31 July 2018	**235,092**	**40,134**	**1,397,512**	**1,672,738**	**-**	**1,672,738**

	Income and expenditure account			Total excluding non controlling interest	Non controlling interest	Total
	Endowment	Restricted	Unrestricted			
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1st August 2016	196,825	12,585	1,271,957	1,481,367	-	1,481,367
Surplus from the income and expenditure statement	25,372	20,006	18,691	64,069	-	64,069
Other comprehensive income	-	-	31,360	31,360	-	31,360
Release of restricted funds spent in year	-	(1,646)	1,646	-	-	-
Total comprehensive income for the year	25,372	18,360	51,697	95,429	-	95,429
Balance at 31 July 2017	**222,197**	**30,945**	**1,323,654**	**1,576,796**	**-**	**1,576,796**

Balance sheet as at 31 July 2018

	Notes	Consolidated		University	
		2018	2017	**2018**	2017
		£'000	£'000	**£'000**	£'000
Non current assets					
Intangible assets and goodwill	11	**7,303**	2,590	**7,737**	2,590
Fixed assets	12	**1,656,531**	1,506,070	**1,619,419**	1,468,153
Heritage assets	13	**257,239**	256,039	**257,239**	256,039
Investments	14	**350,122**	351,145	**347,092**	347,302
Investments in associates	15	**7,296**	7,923	**308**	1,109
		2,278,491	2,123,767	**2,231,795**	2,075,193
Current assets					
Stock		**1,014**	1,601	**977**	1,555
Trade and other receivables	16	**114,855**	105,090	**125,734**	127,623
Investments	17	**255,000**	250,000	**255,000**	250,000
Cash and cash equivalents		**60,284**	135,616	**49,213**	109,835
		431,153	492,307	**430,924**	489,013
Less: Payables: amounts falling due within one year	18	**(362,921)**	(309,203)	**(360,626)**	(295,807)
Net current assets		**68,232**	183,104	**70,298**	193,206
Total assets less current liabilities		**2,346,723**	2,306,871	**2,302,093**	2,268,399
Payables: amounts falling due after more than one year	19	**(404,720)**	(405,459)	**(404,720)**	(405,457)
Provisions					
Pension provisions	21	**(221,669)**	(285,716)	**(221,666)**	(285,677)
Other provisions	21	**(3,566)**	(1,153)	**(2,969)**	(469)
Total net assets		**1,716,768**	1,614,543	**1,672,738**	1,576,796
Restricted reserves					
Income and expenditure reserve - endowment reserve	22	**235,092**	222,197	**235,092**	222,197
Income and expenditure reserve - restricted reserve	23	**40,134**	30,945	**40,134**	30,945
Unrestricted reserves					
Income and expenditure reserve - unrestricted reserve		**1,441,542**	1,361,401	**1,397,512**	1,323,654
		1,716,768	1,614,543	**1,672,738**	1,576,796
Total reserves		**1,716,768**	1,614,543	**1,672,738**	1,576,796

The financial statements were approved by the Governing Body on 21st November 2018 and were signed on its behalf on that date by:

Mr Edward M Astle
Chair of the Board of Governors and Pro-Chancellor

Professor Dame Nancy Rothwell
President and Vice-Chancellor

Mr Stephen Dauncey
Director of Finance

Consolidated statement of cash flows

Year ended 31 July 2018

	Notes	Year ended 31 July 2018 £'000	Year ended 31 July 2017 £'000
Cash flow from operating activities			
Surplus for the year		43,059	63,546
Adjustment for non-cash items			
Depreciation	12	77,176	81,406
Amortisation of intangible assets	11	1,262	2,015
Gain on investments		(12,882)	(31,784)
Decrease in stock		587	73
(Decrease)/increase in debtors	16	(9,765)	3,524
Increase in creditors	18-19	70,151	25,136
Decrease in pension provision	21	(4,881)	(6,463)
Increase/(decrease) in other provisions	14 & 21	6,633	(243)
Receipt of donated equipment		(1,200)	-
Share of operating surplus in associate	15	(173)	(1,616)
Non controlling interest		-	(189)
Adjustment for investing or financing activities			
Investment income	5	(8,044)	(7,543)
Interest payable		18,449	18,899
New endowments	6	(4,558)	(2,127)
Profit on sale of fixed assets		(331)	(1,548)
Capital grant income		(83,554)	(51,294)
Assets transferred to other operating expenditure	11-12	325	2,064
Net cash inflow from operating activities		92,254	93,856
Cash flows from investing activities			
Proceeds from sales of fixed assets		1,265	5,604
Disposal of non current asset investments		60,900	2,357
Capital grant receipts		71,972	37,351
(Placement)/withdrawal of deposits		(5,000)	74,906
Investment income		8,044	7,543
Payments made to acquire fixed assets		(236,655)	(164,133)
Payments made to acquire investments		(50,416)	(3,330)
Net cash outflow from investing activities		(149,890)	(39,702)
Cash flows from financing activities			
Interest paid		(18,448)	(18,742)
Interest element of finance lease rental payment		-	(157)
Endowment cash received		4,558	2,127
Repayments of long-term loans		(3,806)	(5,425)
Net cash outflow from financing activities	20	(17,696)	(22,197)
(Decrease)/increase in cash and cash equivalents in the year	26	(75,332)	31,957
Cash and cash equivalents at beginning of the year	26	135,616	103,659
Cash and cash equivalents at the end of the year	26	60,284	135,616

Notes to the financial statements

Year ended 31 July 2018

1 Tuition fees and education contracts	Consolidated		University	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Full-time home and EU students	**210,131**	210,975	**210,131**	210,975
Full-time international students	**203,695**	194,388	**203,695**	194,388
Part-time students	**29,278**	26,992	**29,278**	10,902
Short course fees	**19,391**	15,832	**19,391**	15,832
Other teaching contract courses	**-**	768	**-**	-
Research training support grants	**350**	217	**350**	217
	462,845	449,172	**462,845**	432,314

2 Funding body grants	Consolidated		University	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Recurrent grant				
Higher Education Funding Council - recurrent	**103,702**	103,034	**103,702**	103,034
Higher Education Funding Council - capital	**16,706**	25,160	**16,706**	25,160
Other recurrent grants	**2,355**	2,254	**2,355**	2,254
Specific grants				
Special initiatives	**4,363**	3,442	**4,363**	3,442
	127,126	133,890	**127,126**	133,890

3 Research grants and contracts	Consolidated		University	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Research councils	**123,251**	108,763	**123,251**	108,763
UK based charities	**56,688**	53,137	**56,688**	53,137
UK central government, hospitals and health authorities	**36,335**	32,709	**36,335**	32,709
UK industry and commerce	**19,971**	24,831	**19,971**	24,831
Overseas	**60,711**	41,420	**60,711**	41,420
Other sources	**1,758**	1,257	**1,758**	1,257
	298,714	262,117	**298,714**	262,117

The above includes £57.5m (2017: £24.2m) relating to income recognised in respect of capital additions.

Included within the above is £159.3m (2017: £141.5m) of income from UK Government sources. There are no significant unfulfilled conditions or contingencies relating to government income recognised. The University has not benefitted from any other government assistance.

4 Other income	Consolidated		University	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Residences, catering and conferences	**52,869**	54,217	**50,501**	52,380
Other grants	**34,537**	36,060	**34,521**	36,059
Income from supply of goods and services	**18,006**	17,235	**17,942**	19,352
Income from reimbursed salary costs	**13,706**	13,109	**13,706**	13,109
Premises income	**1,648**	6,064	**3,017**	3,277
Consultancy	**3,102**	3,586	**3,102**	3,586
Other capital income	**9,345**	1,905	**9,345**	1,905
Other	**18,219**	11,385	**15,044**	18,077
	151,432	143,561	**147,178**	147,745

Included within the above is £43.9m (2017: 44.5m) of income from UK Government sources. There are no significant unfulfilled conditions or contingencies relating to government income recognised. The University has not benefitted from any other government assistance.

5 Investment income

	Consolidated		University	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Interest from short-term investments	**3,380**	4,510	**3,371**	4,438
Dividend income	**882**	421	**882**	421
Endowment income	**3,426**	2,600	**3,426**	2,600
Investment income	**356**	12	**594**	360
	8,044	7,543	**8,273**	7,819

6 Donations and endowments

	Consolidated		University	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
New endowments	**4,558**	2,127	**4,558**	2,127
Donations	**6,441**	10,586	**6,441**	10,586
	10,999	12,713	**10,999**	12,713

7 Staff costs

	Consolidated		University	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Staff Costs:				
Wages and salaries	**396,900**	387,832	**386,384**	377,685
Social security costs	**42,620**	40,435	**41,787**	39,615
Pension costs	**91,626**	86,604	**90,255**	85,201
Early retirement and voluntary severance (ERVS) scheme costs	**6,262**	1,877	**6,223**	1,877
	537,408	516,748	**524,649**	504,378

Clinical Excellence Awards paid to NHS Consultants employed on joint contracts between the NHS and the University are not borne by the University and are excluded from the above analysis and from the analysis of remuneration of higher paid staff. These amount to £3.6m for the year ended 31 July 2018 (2017: £3.8m).

Termination benefits (including ERVS costs) amounting to £6.7m were paid to members of staff who left the University or its subsidiaries for the year ended 31 July 2018. These payments were made to 388 people in the year ended 31 July 2018.

In June 2009 the University introduced a salary sacrifice arrangement known as PensionChoice for University employees who are members of the USS and UMSS pension schemes. Wages and salaries for the USS and UMSS members participating in PensionChoice reflect the reduced gross pay earned by staff and the pension costs reflect the increased employer element of the USS and UMSS pension contributions.

	Consolidated		University	
Average staff numbers	**2018**	2017	**2018**	2017
	No.	No.	**No.**	No.
Academic	**2,688**	2,717	**2,688**	2,717
Research	**1,964**	1,957	**1,964**	1,957
Administrative and management	**1,563**	1,510	**1,422**	1,366
Clerical and secretarial	**1,909**	2,032	**1,873**	1,800
Technical	**2,333**	2,155	**2,147**	2,155
Total number of staff	**10,457**	10,371	**10,094**	9,995

7 Staff costs (continued)

Remuneration of higher paid staff (other than the President and Vice-Chancellor), excluding employer's pension contributions, was within the ranges set out below. Payments made on behalf of the NHS in respect of its contractual obligations to University staff under separate NHS contracts of employment are not included within remuneration. Of these staff, 92 staff held clinical roles in 2017-18 (2016-17: 88 staff)

	Consolidated		University	
	2018	2017	**2018**	2017
	Average FTE Number of Employees	Average FTE Number of Employees	**Average FTE Number of Employees**	Average FTE Number of Employees
£100,001 - £105,000	**27**	51	**26**	51
£105,001 - £110,000	**44**	12	**44**	12
£110,001 - £115,000	**9**	14	**9**	13
£115,001 - £120,000	**9**	8	**9**	7
£120,001 - £125,000	**3**	5	**3**	5
£125,001 - £130,000	**4**	4	**2**	3
£130,001 - £135,000	**9**	9	**8**	9
£135,001 - £140,000	**3**	3	**3**	2
£140,001 - £145,000	**2**	3	**2**	3
£145,001 - £150,000	**3**	2	**3**	2
£150,001 - £155,000	**1**	2	**1**	2
£155,001 - £160,000	**3**	3	**2**	3
£160,001 - £165,000	**3**	4	**3**	4
£165,001 - £170,000	**1**	1	**1**	1
£170,001 - £175,000	**1**	1	**1**	1
£175,001 - £180,000	**2**	-	**2**	-
£185,001 - £190,000	**2**	3	**2**	3
£190,001 - £195,000	**2**	2	**2**	1
£200,001 - £205,000	**1**	1	**1**	1
£205,001 - £210,000	**1**	2	**-**	1
£210,001 - £215,000	**1**	1	**1**	1
£220,001 - £225,000	**-**	2	**-**	2
£230,001 - £235,000	**1**	-	**-**	-
£265,001 - £270,000	**1**	-	**1**	-
£275,001 - £280,000	**-**	1	**-**	1
£280,001 - £285,000	**1**	-	**1**	-
	134	134	**127**	128

	Consolidated and University	
	2018	2017
Emoluments of the President and Vice-Chancellor:	**£'000**	£'000
Salary	**263**	260
Benefits	**4**	4
Pension contributions taken as cash	**5**	36
Pension contributions to USS	**-**	6
	272	306

The Chair of the Board of Governors and Pro-Chancellor for 2017/18 has waived his right to fees in respect of the year.

Termination payments totalling £342k were paid to two individuals whose annual remuneration exceeded £100,000.

Notes to the financial statements (continued)

Year ended 31 July 2018

7 Staff costs (continued)

The President and Vice-Chancellors basic salary is 8.24 times the median pay of staff (£31,604), where the median pay is calculated on a full-time equivalent basis for the salaries paid by the University to its staff, including atypical staff (as defined by HESA). Excluding atypical staff her salary is 7.54 times the median pay of staff (£34,520). Her total remuneration is 8.37 times the median total remuneration of staff (£32,548) calculated on a full-time equivalent basis including atypical staff. Excluding atypical staff her total remuneration is 7.66 the median total remuneration of staff (£36,550). The median pay and pay ratios derived exclude agency staff (as these are not on the University payroll system) and fee records (as these do not record FTE numbers).

	2018	2017
	£'000	£'000
Amount of expenses claimed by members of the Board of Governors during the year	10	18
Number of members of the Board of Governors claiming expenses	16	15

Key management personnel

Key management personnel are the members of the senior leadership team as defined in the Renumeration Committee report on page 26. Compensation paid to key management personnel (including the President and Vice-Chancellor) within the year was as follows:

	Consolidated and University	
	2018	2017
	£'000	£'000
Key management personnel	2,375	2,214

8 Analysis of other operating expenses	Consolidated		University	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Academic and related expenditure	97,944	89,226	104,921	89,226
Central administration and services	123,508	91,125	120,621	93,355
Premises	67,284	62,370	67,501	61,933
Residences, catering and conferences	20,643	20,721	26,447	26,361
Research grants and contracts	74,052	76,576	74,052	76,576
Other expenses	5,210	13,981	11,563	5,400
	388,641	353,999	405,105	352,851

	Consolidated	
Included within operating expenses are the following costs:	2018	2017
	£'000	£'000
Fees payable to the University's auditor for the audit of the University and its subsidiaries' annual accounts	195	188
Non-audit fees payable to the University's auditor	7	45
Total fees	202	233

The disclosures above are for the Group. The University is not required, in its individual financial statements, to disclose separately information about fees for non-audit services provided to the University.

Lease payments recognised as an expense in the year amounted to £17.5m for the group (2017: £13.9m)

9 Interest and other finance costs

	Consolidated		University	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Bank loans	**658**	858	**658**	858
Other loans	**17,791**	17,884	**17,790**	17,790
Finance leases	**-**	157	**-**	157
Interest on net defined pension liability	**4,949**	5,630	**4,949**	5,630
Unwinding of USS pension deficit funding	**1,731**	1,777	**1,730**	1,777
	25,129	26,306	**25,127**	26,212

10 Taxation

	Consolidated		University	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Recognised in the Statement of comprehensive income				
Current tax				
Current tax	**31**	17	**31**	-
Foreign tax	**(71)**	-	**-**	-
Current tax expense	**(40)**	17	**31**	-
Deferred tax				
Origination and reversal of timing differences	**(87)**	96	**-**	-
Deferred tax expense	**(87)**	96	**-**	-
Total tax expense	**(127)**	113	**31**	-
Tax paid in year	**-**	-	**-**	-

Factors affecting the tax charge:

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The difference is explained below:

	Consolidated		University	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Surplus before taxation	**42,932**	63,470	**36,807**	64,069
Surplus multiplied by the standard rate of corporation tax in the UK of 19% (2017: 19.67%)	**8,157**	12,485	**6,993**	12,602
Effect of:				
Surplus falling within charitable exemption	**(8,083)**	(12,602)	**(6,962)**	(12,602)
Other differences attributable to subsidiaries	**(114)**	134	**-**	-
Deferred tax movement	**(87)**	96	**-**	-
Total tax expense	**(127)**	113	**31**	-

The University is an exempt charity within the meaning of Part 3 of the Charities Act 2011 . It is therefore a charity within the meaning of Paragraph 1 of Schedule 6 to the Finance Act 2010 and accordingly, the University is potentially exempt from UK Corporation Tax in respect of income or capital gains received within categories covered by Sections 478-488 of the Corporation Tax Act 2010 (CTA 2010) or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

Notes to the financial statements (continued)

Year ended 31 July 2018

11 Intangible assets and goodwill	**Consolidated**		**University**	
	2018	2017	**2018**	2017
Cost	**£'000**	£'000	**£'000**	£'000
At 1 August 2017	**6,192**	4,478	**6,149**	4,435
Assets transferred to other operating expenditure	**(55)**	(71)	**(55)**	(71)
Additions at cost	**6,029**	2,164	**6,572**	2,164
Disposals	**(1,653)**	(379)	**(1,653)**	(379)
At 31 July 2018	**10,513**	6,192	**11,013**	6,149
Depreciation and amortisation				
At 1 August 2017	**3,602**	1,966	**3,559**	1,926
Amortisation	**1,262**	2,015	**1,371**	2,012
Disposals	**(1,654)**	(379)	**(1,654)**	(379)
At 31 July 2018	**3,210**	3,602	**3,276**	3,559
Net book value				
At 31st July 2018	**7,303**	2,590	**7,737**	2,590

The amortisation period is 5 years

12 Tangible fixed assets	**Freehold land and buildings**	**Lease premium**	**Assets under construction**	**Fixtures, fittings, tools and equipment**	**Total**
(a) Consolidated	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Cost					
At 1 August 2017	1,354,370	-	204,440	291,318	**1,850,128**
Transferred to other operating expenditure	-	-	(270)	-	**(270)**
Additions at cost	24,868	-	189,905	14,069	**228,842**
Transfers between categories	54,267	-	(61,139)	6,872	**-**
Disposals	(4,709)	-	-	(9,306)	**(14,015)**
At 31 July 2018	1,428,796	-	332,936	302,953	**2,064,685**
Depreciation					
At 1 August 2017	106,603	-	-	237,455	**344,058**
Charge for the year	51,210	-	-	25,966	**77,176**
Disposals	(4,045)	-	-	(9,035)	**(13,080)**
At 31 July 2018	153,768	-	-	254,386	**408,154**
Net book value					
At 31 July 2018	**1,275,028**	**-**	**332,936**	**48,567**	**1,656,531**
At 1 August 2017	1,247,767	-	204,440	53,863	1,506,070

12 Tangible fixed assets

(b) University	Freehold land and buildings £'000	Lease premium £'000	Assets under construction £'000	Fixtures, fittings, tools and equipment £'000	Total £'000
Cost					
At 1 August 2017	1,312,948	5,400	204,440	285,366	**1,808,154**
Transferred to other operating expenditure	-	-	(270)	-	**(270)**
Additions at cost	24,868	-	189,905	13,801	**228,574**
Transfers between categories	54,267	-	(61,139)	6,872	**-**
Disposals	(4,709)	-	-	(9,306)	**(14,015)**
At 31 July 2018	1,387,374	5,400	332,936	296,733	**2,022,443**
Depreciation					
At 1 August 2017	104,601	1,406	-	233,994	**340,001**
Charge for the year	50,446	74	-	25,583	**76,103**
Disposals	(4,045)	-	-	(9,035)	**(13,080)**
At 31 July 2018	151,002	1,480	-	250,542	**403,024**
Net book value					
At 31 July 2018	**1,236,372**	**3,920**	**332,936**	**46,191**	**1,619,419**
At 1 August 2017	1,208,347	3,994	204,440	51,372	1,468,153

The University and its subsidiaries revalued some of its land and buildings on a fair value basis as at 31 July 2014, taking advantage of the transitional provisions of FRS 102 section 35.10. The University appointed Gerald Eve LLP, an independent external valuer which is regulated by the Royal Institution of Chartered Surveyors. The valuation was performed in accordance with the RICS Valuation – Professional Standards April 2015. In accordance with the FRS 102 transitional provisions these revised values are now used as the deemed cost of certain land and buildings going forward.

At 31 July 2018, freehold land and buildings included £217.0m (2017: £217.7m) in respect of freehold land which is not depreciated.

As a result of the fire at the Paterson Building, there has been a write off of equipment with a net book value of £0.3m in the year.

13 Heritage assets

The University revalued some of its heritage assets on a fair value basis as at 31 July 2014, taking advantage of the transitional provisions of FRS 102 section 35.10. The University appointed Sothebys, an independent external valuer. In accordance with the FRS 102 transitional provisions these revised values are now used as the deemed cost of certain heritage assets going forward. Heritage assets held at cost or valuation are not depreciated due to their indefinite life and high residual value.

Movement on heritage assets during 2017/18 was as follows:	Consolidated and University
Cost	**£'000**
At 1st August 2017	**256,039**
Additions	**1,200**
As at 31 July 2018	**257,239**

The University also holds heritage assets that are not capitalised as, due to their unique nature, reliable information on cost or valuation is not readily available on a cost-benefit basis. This is owing to the lack of information on original purchase cost and the fact that these assets are not readily realisable. All costs incurred in relation to preservation and conservation are expensed as incurred. Key heritage assets held by the University fall into the categories detailed below. Their total value for insurance purposes is £1.4bn.

Notes to the financial statements (continued)

Year ended 31 July 2018

13 Heritage assets (continued)

Whitworth Art Gallery

Whitworth Art Gallery houses and displays collections including flat textiles ranging from 3rd Century AD to the present day; 17th century to modern day wallpapers; selections of prints, pre-1880 watercolours and modern art and sculpture collections.

Manchester Museum

The Manchester Museum houses and displays various artefacts and fossils, in particular it has a substantial collection of ancient Egyptian artefacts as part of its archaeology collection. It also houses and displays collections in the fields of botany, anthropology and palaeontology as well as collections of rocks and minerals for example.

John Rylands Library Deansgate

John Rylands Library at Deansgate, Manchester is a Grade 1 listed building from the late 1800s styled in Victorian Gothic architecture. The building also houses and displays a rare collection of more than a million ancient books and manuscripts, including the oldest known piece of the New Testament, first editions by William Shakespeare and medieval manuscripts.

Jodrell Bank

The University owns the 76 metre Lovell telescope sited at Jodrell Bank in Cheshire. It was built in 1957, is a grade 1 listed building and remains one of the most powerful radio telescopes in the world. It is still in operation as a working telescope.

Tabley House

The University also owns Tabley House, an 18th century Palladian mansion in Cheshire. The house is let on a long-lease of 125 years to a third party. Part of the house is open to the public and houses and displays various painting and furniture collections from that era.

Policy for management, preservation, acquisition and disposal of assets

The collections are managed by dedicated directors at each site. They are supported by a team of highly skilled and experienced curators who have responsibility over specialised areas of the collections.

The condition of the assets is maintained through a programme of effective collection care to reduce damage and deterioration by reducing risk from physical damage (including handling), theft and vandalism, fire and water/flood, inappropriate relative humidity and temperature, light, pollutants and museum pests. A rolling programme of remedial conservation is ongoing to stabilise assets which may be deteriorating over time.

Further information on the University's policies regarding conservation, preservation, management and disposal of heritage assets can be found on the University's website www.manchester.ac.uk/discover/open-public .

Each site maintains extensive databases which itemise the assets held, and online databases of the assets held at The Manchester Museum, The Whitworth Art Gallery and John Rylands Library are freely available to the general public.

For more details of the collection held at:

- The Manchester Museum please see www.museum.manchester.ac.uk/collection
- The John Rylands Library please see www.library.manchester.ac.uk/search-resources/guide-to-special-collections
- The Whitworth Art Gallery please see www.whitworth.manchester.ac.uk/collection

Public access to the collections is delivered in a variety of ways:

Gallery displays and a combination of permanent and temporary exhibitions at each site.
Education and outreach activities such as school trips.
Access by researchers and interested groups/individuals by arrangement.
Loans out to UK and international museums and galleries, or other venues.

The directors at each site, in partnership with their curators, are responsible for the identification and purchase of items to further enhance the cultural value of the collections to both students and the wider general public.

14 Non current investments

Analysis of closing balance	**Consolidated 2018 £'000**	Consolidated 2017 £'000	**University 2018 £'000**	University 2017 £'000
Interest in subsidiary undertakings (14a)	**-**	-	**241**	241
Investment properties (14b)	**6,911**	8,308	**6,911**	8,308
Investments carried at fair value through the Statement of Comprehensive Income (14c)	**318,093**	254,714	**314,822**	250,630
Investments carried at amortised cost (14d)	**25,000**	85,000	**25,000**	85,000
Investments held at cost less impairment (14e)	**118**	3,123	**118**	3,123
	350,122	351,145	**347,092**	347,302

Movement in year

Consolidated	**Investment in subsidiary undertakings £'000**	**Investment properties £'000**	**Investments carried at fair value £'000**	**Investments carried at amortised cost £'000**	**Investments held at cost less impairment £'000**	**Total £'000**
At 1 August 2017	-	8,308	254,714	85,000	3,123	**351,145**
Additions	-	-	50,000	-	416	**50,416**
Disposals	-	-	(900)	(60,000)	-	**(60,900)**
Revaluation of investment properties	-	(1,397)	-	-	-	**(1,397)**
Net appreciation of investment portfolio and other listed investments	-	-	14,279	-	-	**14,279**
Impairment provision in the year	-	-	-	-	(3,421)	**(3,421)**
At 31 July 2018	**-**	**6,911**	**318,093**	**25,000**	**118**	**350,122**

University	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 1 August 2017	241	8,308	250,630	85,000	3,123	**347,302**
Additions	-	-	50,000	-	416	**50,416**
Disposals	-	-	(900)	(60,000)	-	**(60,900)**
Revaluation of investment properties	-	(1,397)	-	-	-	**(1,397)**
Net appreciation of investment portfolio	-	-	15,092	-	-	**15,092**
Impairment provision in the year	-	-	-	-	(3,421)	**(3,421)**
At 31 July 2018	**241**	**6,911**	**314,822**	**25,000**	**118**	**347,092**

Notes to the financial statements (continued)

Year ended 31 July 2018

14 Non current investments (continued)

(a) Interests in subsidiary undertakings

At year end, investments in subsidiary undertakings after provisions comprise:

	Group Holding	University 2018	2017	Description
	%	£	£	
Graphene Enabled Systems Limited	100	-	-	Assisting the commercialisation of Graphene through Spin out companies
Manchester Innovation Limited	100	-	-	Construction of a biotech incubator building
The University of Manchester Innovation Centre Limited	100	**50,000**	50,000	Owns and operates a biotech incubator building
UMIST Ventures Limited	100	**1**	1	Provision of staff to sister companies
The University of Manchester I3 Limited	100	**50,000**	50,000	Management of intellectual property
UMIP UPF Limited	100	**10,000**	10,000	Investment in the UMIP Premier Fund
The University of Manchester Conferences Limited	100	**2**	2	Management of conference and catering facilities
Systemcost Trading Limited	100	-	2	Dissolved 28 February 2017
The University of Manchester Car Parks Limited	100	**2**	2	Maintenance and running of car park facilities
The University of Manchester Licensing Company Limited	100	**1,000**	1,000	Dormant
Sugden Sports Trust	50	-	-	Ownership of sports centre - Trust in process of being dissolved
Loan to Sugden Sports Trust		-	-	
Vumpine Limited	50	**50**	50	Dormant
UMSS Limited	100	**2**	2	To undertake the duty of trustee of UMSS
MBS Worldwide Limited	100	**124,288**	124,288	Provision of distance learning
Manchester Business School (Shanghai) Limited	100	-	-	Consultancy and management services
Manchester Business School America Inc	100	-	-	Provision of distance learning
Manchester Business School PTE Ltd	100	-	-	Provision of distance learning
UoM Singapore PTE Ltd	100	**5,260**	5,260	Teaching of Nursing degrees in Singapore
The University of Manchester (CLG)	100	-	-	Dormant
Owens College (CLG)	100	-	-	Dormant
Owens College Manchester (CLG)	100	-	-	Dormant
Manchester University (CLG)	100	-	-	Dormant
UMIST (CLG)	100	-	-	Dormant
		240,605	240,607	

Certain subsidiary undertakings above are shown as having nil cost of investment. In each case these are either indirectly owned as indicated, are limited by guarantee ('CLG') or are trusts.

Where applicable, the 'group holding' is equivalent to the proportion of voting rights and shares held.

All the subsidiary undertakings are incorporated in England and Wales, with the exception of UoM Singapore PTE Ltd and the subsidiaries of MBS Worldwide Limited.

All subsidiary undertakings prepare statutory accounts to the same year end date as the University.

14 Non current investments (continued)

(b) Investment properties

The investment properties currently totalling £6.9m (2017: £8.3m) were revalued on an open market basis as at 31 July 2015 by an external valuer, Edward Symmons LLP which is regulated by the Royal Institution of Chartered Surveyors. The valuation was performed in accordance with the RICS Valuation - Professional Standards 2014. This valuation has been updated as at 31 July 2018 by senior management at the University and the value was revised from £8.3m down to £6.9m as a consequence.

	Consolidated		University	
(c) Investments carried at fair value	**2018**	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Listed investments	**314,822**	250,630	**314,822**	250,630
Other investments	**3,271**	4,084	**-**	-
	318,093	254,714	**314,822**	250,630
(d) Investments carried at amortised cost				
Long-term cash deposits and uninvested bank balances	**25,000**	85,000	**25,000**	85,000
	25,000	85,000	**25,000**	85,000
(e) Investments carried at cost less impairment				
Other investments	**118**	3,123	**118**	3,123
	118	3,123	**118**	3,123

15 Investments in associates

	Consolidated		University	
Movement in year	**2018**	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
At 1 August 2017	**7,923**	5,198	**1,109**	-
Additions at cost	**-**	1,109	**-**	1,109
Share of profits	**174**	1,616	**-**	-
Provision against investments	**(801)**	-	**(801)**	-
At 31 July 2018	**7,296**	7,923	**308**	1,109

The Group had the following associated undertakings as at 31 July 2018:

Name of associate	**Class of share capital held**	**Proportion held by the University and Group**	**Share of net assets 2018 £'000**	Share of net assets 2017 £'000
Manchester Science Partnerships Limited Financial year end 31 December	£1 ordinary	12.2%	**6,987**	6,814
North West EHealth Ltd Financial year ended 31 December	£1 ordinary	40%	**309**	1,109
			7,296	7,923

The associated companies are accounted for using the equity method. All associated companies were incorporated in the United Kingdom.

Notes to the financial statements (continued)

Year ended 31 July 2018

16 Trade and other receivables	Consolidated		University	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Trade receivables	**45,348**	39,183	**44,716**	37,948
Other receivables	**3,472**	3,619	**2,745**	2,869
Accrued income on research grants and contracts	**33,106**	28,784	**33,050**	28,784
Prepayments and other accrued income	**32,929**	33,504	**32,525**	32,632
Amounts due from subsidiary companies	**-**	-	**12,698**	25,390
	114,855	105,090	**125,734**	127,623

Included within the above is £9.6m (2017: £15.2m) relating to University only debtors due in over one year. There are no debtors due in over one year on a consolidated basis in both the current and prior year.

17 Current investments	Consolidated		University	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Deposits maturing:				
Between three months and one year	**255,000**	250,000	**255,000**	250,000

Deposits are held with banks and building societies operating in the London market and licensed by the Financial Services Authority with more than three months maturity at the balance sheet date. The interest rates for these deposits are fixed for the duration of the deposit at time of placement.

At 31 July 2018 the weighted average interest rate of these fixed rate deposits was 1.06% per annum (2017: 0.87%) and the remaining weighted average period for which the interest rate is fixed on these deposits was 185 days (2017: 170 days). The fair value of these deposits was not materially different from the book value.

18 Payables: amounts falling due within one year	Consolidated		University	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Bank and other loans (note 20)	**3,998**	3,902	**3,998**	3,902
Trade payables	**51,723**	31,941	**50,886**	29,882
Social security and other taxation payable	**13,032**	12,721	**12,388**	12,381
Amounts owed to group undertakings	**-**	-	**1,512**	318
Other payables	**30,355**	26,585	**29,883**	25,199
Deferred income on research	**121,215**	107,557	**121,349**	107,557
Accruals and other deferred income	**142,598**	126,497	**140,610**	116,568
	362,921	309,203	**360,626**	295,807

Accruals and deferred income includes an amount of £1m in respect of the Turing Institute, which is a commitment that the University has entered into over 5 years. The Institute is required to spend the funds for the purposes for which it has been awarded.

19 Payables: amounts falling due after more than one year

	Consolidated		University	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Bank loans	**6,282**	10,279	**6,282**	10,279
Other loans	**393,383**	393,288	**393,383**	393,288
Other payables	**5,055**	1,892	**5,055**	1,890
	404,720	405,459	**404,720**	405,457

Accruals and deferred income includes an amount of £3.5m in respect of Turing Institute, which is a commitment that the University has entered into over 5 years. The Institute is required to spend the funds for the purposes for which it has been awarded.

20 Borrowings

	Consolidated		University	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Unsecured borrowings at amortised cost:				
Bond	**293,871**	293,786	**293,871**	293,786
Bank loans	**10,280**	14,181	**10,280**	14,181
Other loans	**99,512**	99,502	**99,512**	99,502
	403,663	407,469	**403,663**	407,469
Analysis of unsecured loans:				
Due within one year or on demand	**3,998**	3,902	**3,998**	3,902
Due between one and two years	**3,057**	3,998	**3,057**	3,998
Due between two and five years	**3,225**	6,281	**3,225**	6,281
Due in five years or more	**393,383**	393,288	**393,383**	393,288
	403,663	407,469	**403,663**	407,469

Bond

In July 2013 an unsecured fixed rate public bond was issued for the sum of £300 million over a 40 year term with a coupon rate of 4.25%. It is listed on the London Stock Exchange. There are no capital payments to be made over the term, with the bond maturing in 2053.

The bond transaction costs of £7.5m are amortised over the life of the bond and charged to interest costs.

The University may, at its option, redeem some or all of the bond at the Redemption Price together with interest accrued to the date of redemption. The 'Redemption Price' shall be the higher of (a) the principal amount of the bond to be redeemed and (b) the product of the principal amount of the bond to be redeemed and the sum of the Gross Redemption Yield (4.25% Treasury Stocks due December 2055) and 0.15%.

Unsecured bank and other loans

Bank loans with an interest rate of 5.15%, repayable by instalments falling due between 2018 and 2019 totalling £3.1m (2017: £5.2m)
Bank loans with an interest rate of 5.21%, repayable by instalments falling due between 2018 and 2022 totalling £7.1m (2017: £9.0m)
Other loans with an interest rate of 5.04%, repayable by one repayment falling due in 2046 totalling £99.5m (2017: £99.5m).

	Amount	Term	Interest rate	Borrower
	£'000		**%**	
Bank Loans				
European Investment Bank	3,125	2019	5.15 (Fixed)	University
European Investment Bank	7,155	2022	5.21 (Fixed)	University
	10,280			

Notes to the financial statements (continued)

Year ended 31 July 2018

21 Provisions for liabilities

(a) Consolidated	Obligation to fund deficit on USS pension £'000	Defined benefit obligations (Note 25) £'000	Total pensions provisions £'000	Other provisions £'000	Deferred tax £'000	Total £'000
Balance at 1st August 2017	93,571	192,145	285,716	469	684	**286,869**
Movement during the year	(5,862)	(27,880)	(33,742)	2,500	(15)	**(31,257)**
Credited to the Statement of comprehensive income	(4,619)	(25,686)	(30,305)	-	(72)	**(30,377)**
Balance at 31 July	**83,090**	**138,579**	**221,669**	**2,969**	**597**	**225,235**

(b) University	Obligation to fund deficit on USS pension £'000	Defined benefit obligations (Note 25) £'000	Total pensions provisions £'000	Other provisions £'000	Deferred tax £'000	Total £'000
Balance at 1 August 2017	93,532	192,145	285,677	469	-	**286,146**
Utilised during the year	(5,862)	(27,880)	(33,742)	2,500	-	**(31,242)**
Credited to the Statement of comprehensive income	(4,583)	(25,686)	(30,269)	-	-	**(30,269)**
Balance at 31 July 2018	**83,087**	**138,579**	**221,666**	**2,969**	**-**	**224,635**

Other provisions comprises dilapidation provisions for buildings.

The obligation to fund the past deficit on the Universities Superannuation Scheme (USS) arises from the contractual obligation with the pension scheme for total payments relating to benefits arising from past performance. Management have assessed future employees within the USS scheme and salary payment over the period of the contracted obligation in assessing the value of this provision. Further information is provided in note 25 (a)

The provision for the obligation to fund the deficit in the USS is based on the plan agreed after the 2014 actuarial valuation. The rationale for this and the financial risks pertaining to the 2017 valuation, which is not yet complete, are set out in note 25 (a).

The major assumptions used to calculate the obligation are:

	2018	2017
Discount rate	**2.16%**	1.85%
Salary growth	**3.40% for the next two years and then 3.65% thereafter**	3.10% for the first year, then 3.40% for the next two years and then 3.65% thereafter

Sensitivity analysis

As set out in the accounting policies, there are some critical judgements made in estimating the obligation to fund the USS deficit. The sensitivity of the principal assumptions used to measure the USS deficit provision are set out below:

Change in assumptions at 31 July 2018	Approximate impact
0.5% pa decrease in discount rate	£3.0m
0.5% pa increase in salary inflation	£2.0m
0.5% increase in staff changes	£2.1m
1% increase in deficit contributions	£37.7m
1 year increase in term	£7.6m

Deferred tax (Consolidated)

The elements of deferred tax are as follows:	2018 £'000	2017 £'000
Difference between accumulated depreciation and capital allowances	**430**	502
Other timing differences	**167**	182
Balance at 31 July 2018	**597**	684

22 Endowment Reserves (Consolidated and University)

Restricted net assets relating to endowments are as follows:	Restricted permanent endowments £'000	Unrestricted permanent endowments £'000	Expendable endowments £'000	2018 Total £'000
Balances as at 1 August 2017				
Capital	144,688	14,094	48,994	**207,776**
Accumulated income	7,904	-	6,517	**14,421**
	152,592	14,094	55,511	**222,197**
New endowments	4,498	60	-	**4,558**
Investment income	2,341	207	878	**3,426**
Expenditure from capital and income	(1,704)	(208)	(1,745)	**(3,657)**
	5,135	59	(867)	**4,327**
Increase in market value of investments	5,880	517	2,171	**8,568**
At 31 July 2018	163,607	14,670	56,815	**235,092**
Represented by:				
Capital	155,067	14,670	50,946	**220,683**
Accumulated income	8,540	-	5,869	**14,409**
	163,607	14,670	56,815	**235,092**
The following assets are currently held relating to endowments:				
Non current asset investments held at fair value:				
Investments	127,214	12,035	41,795	**181,044**
Property	17,474	1,653	5,741	**24,868**
Cash	18,919	982	9,279	**29,180**
	163,607	14,670	56,815	**235,092**

Major endowments

There are no charitable funds that are over 5% of net assets. Set out below are details of material charitable funds:

	Capital Value at 31 July 2018 £'000	Opening accumulated income £'000	Dividend income £'000	Expenditure from income £'000	**Closing Accumulated Income £'000**
Significant funds and charities with income above £100,000					
Hallsworth Fund	**30,606**	338	478	(465)	**351**
Simon Fund	**16,917**	189	264	(304)	**149**
Oncology Department Fund	**14,985**	117	234	(226)	**125**
University of Manchester Student Support Fund	**12,324**	2,469	192	(819)	**1,842**
Funds and charities with income below £100,000					
Fellowships and scholarships (29 funds)	**28,849**	1,383	429	(305)	**1,507**
Prize funds (7 funds)	**2,728**	152	42	(1)	**193**
Chairs and lectureships (14 funds)	**28,726**	922	451	(370)	**1,003**
Other (63 funds)	**85,548**	8,853	1,335	(949)	**9,239**
	220,683	14,423	3,425	(3,439)	**14,409**

22 Endowment Funds (continued)

The University has one connected institution which, under paragraph 28 of Schedule 3 to the Charities Act 2011, is exempt from registration with the Charity Commission. This connected institution is the Friends of the Whitworth and its income is less than £100,000 per annum.

All endowment capital is invested through investment managers.

Hallsworth Fund

This restricted permanent endowment is to assist and advance the study of Political Economy by the establishment of Research Fellowships and Visiting Professorships. It also provides resources to assist projects of research in Political Economy and the publication of books and documents in that field. The original governing document of this endowment was altered by the Charity Commission in 1998. The management and administration of this Fund is run by the Hallsworth Committee which is appointed as trustee by the Board of Governors.

Simon Fund

This restricted permanent endowment, operated by the Simon Fund Committee, primarily funds the appointment of Fellowships and Visiting Professorships in the field of Social Sciences, Professorial Industrial and Professorial Fellowships, Engineering Research Scholarships and a grant for entertainment to academic departments and Halls of Residence. Its purpose is also to promote research and teaching in the Social Sciences and a substantial portion of the income is to be used for Senior Fellowships. It also funds various ad hoc projects approved by the Simon Fund Committee.

Oncology department fund

This restricted permanent endowment is used to fund a Chair in Oncology, the donor being the Cancer Research Campaign (now Cancer Research UK).

University of Manchester Student Support Fund

This restricted expendable fund is one of the new merged funds resulting from the recent endowment portfolio restructure. The fund consolidated 318 separate endowment funds, each of which had the aim to support the University of Manchester students.

23 Restricted Reserves (University and Consolidated)

Reserves with restrictions are as follows:

	Capital Grants Unspent £'000	Other Restricted Funds/ Donations £'000	2018 Total £'000
Balance as at 1 August 2017	30,768	177	**30,945**
New grants	50,952	-	**50,952**
Reclassification to general reserves	(41,680)	(50)	**(41,730)**
Expenditure	-	(33)	**(33)**
Balance as at 31 July 2018	**40,040**	**94**	**40,134**

24 Financial Instruments

Categories of financial instruments	Consolidated		University	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Financial assets				
Financial assets at fair value through Statement of consolidated income				
Listed investments	**314,822**	250,630	**314,822**	250,630
Other investments	**3,270**	4,084	**-**	-
Financial assets that are equity instruments measured at cost less impairment				
Other investments	**118**	3,123	**118**	3,123
Financial assets that are debt instruments measured at amortised cost				
Loan notes	**25,000**	85,000	**25,000**	85,000
Trade and other receivables	**48,820**	42,802	**60,159**	66,207
	392,030	385,639	**400,099**	404,960
Financial liabilities measured at amortised cost				
Loans	**403,663**	407,469	**403,663**	407,469
Trade and other payables	**87,133**	60,418	**87,336**	57,289
	490,796	467,887	**490,999**	464,758

25 Pension schemes

Different categories of staff were eligible to join one of four different schemes:
- Universities Superannuation Scheme (USS)
- University of Manchester Superannuation Scheme (UMSS)
- Greater Manchester Pension Fund (GMPF)
- National Health Service Pension Scheme (NHSPS).

According to the requirements of FRS102 (28), the net pension costs within the year, and movement within the pension schemes in the year are as follows:

	Consolidated		University	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Statement of comprehensive income - net pension cost in year				
USS (including change in provision for USS deficit recovery plan)	**60,553**	59,067	**59,182**	58,993
UMSS	**27,208**	24,123	**27,208**	24,123
GMPF	**1,399**	1,517	**1,399**	1,517
NHSPS	**2,455**	2,424	**2,455**	2,424
Other	**11**	69	**11**	10
	91,626	87,200	**90,255**	87,067
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Other comprehensive income - actuarial gain in respect of pension schemes				
University of Manchester Superannuation Scheme	**48,803**	23,566	**48,803**	23,566
Greater Manchester Pension Fund	**10,363**	7,794	**10,363**	7,794
	59,166	31,360	**59,166**	31,360
Balance sheet - Pension scheme deficits (note 21)				
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
University of Manchester Superannuation Scheme	**(132,783)**	(175,957)	**(132,783)**	(175,957)
Greater Manchester Pension Fund	**(5,796)**	(16,188)	**(5,796)**	(16,188)
	(138,579)	(192,145)	**(138,579)**	(192,145)

Notes to the financial statements (continued)

Year ended 31 July 2018

25 Pension schemes (continued)

(a) The Universities Superannuation Scheme

The institution participates in Universities Superannuation Scheme (USS) which is the main scheme covering most academic and academic-related staff. The Scheme is a hybrid pension scheme, providing defined benefits (for all members), as well as defined contribution benefits. The assets of the scheme are held in a separate trustee-administered fund.

Because of the mutual nature of the scheme, the assets are not attributed to individual institutions and a scheme-wide contribution rate is set. The institution is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. As required by Section 28 of FRS 102 "Employee Benefits", the institution therefore accounts for the scheme as if it were a wholly defined contribution scheme. As a result, the amount charged to the Consolidated Statement of Income and Expenditure represents the contributions payable to the scheme. Since the institution has entered into an agreement (the Recovery Plan) that determines how each employer within the scheme will fund the overall deficit, the institution recognises a liability for the contributions payable that arise from the agreement (to the extent that they relate to the deficit) and therefore an expense is recognised.

The total cost charged to the Consolidated statement of comprehensive income is £60,553,000 (2017: £59,067,000) including PensionChoice as shown in note 25.

The latest available complete actuarial valuation of the Retirement Income Builder section of the Scheme is at 31 March 2014 ("the valuation date"), which was carried out using the projected unit method. The valuation as at 31 March 2017 is underway but not yet completed.

Since the institution cannot identify its share of Retirement Income Builder section of the scheme assets and liabilities, the following disclosures reflect those relevant for the section as a whole.

The 2014 valuation was the third valuation for USS under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. At the valuation date, the value of the assets of the scheme was £41.6 billion and the value of the scheme's technical provisions was £46.9 billion indicating a shortfall of £5.3 billion. These figures will be revised once the 2017 Scheme Valuation is complete.

Defined benefit liability numbers for the Scheme for accounting purposes have been produced using the following assumptions as at 31 March 2017 and 2018:

	2018	2017
Discount rate	**2.64%**	2.57%
Pensionable salary growth	**n/a**	n/a
Pension increase (CPI)	**2.02%**	2.41%

The main demographic assumptions used relates to the mortality assumptions. These assumptions have been updated for the 31 March 2018 accounting position, based on updated analysis of the scheme's experience carried out as part of the 2017 actuarial valuation. The mortality assumptions used in these figures are as follows:

	2018	2017
Mortality base table	**Pre-retirement:**	
	71% of AMC00 (duration 0) for males and 112% of AFC00 (duration 0) for females.	98% of SAPS S1NA "light" YOB unadjusted for males.
	Post-retirement:	
	96.5% of SAPS S1NMA "light" for males and 101.3% of RFV00 for females.	99% of SAPS S1NA "light" YOB with a -1 year adjustment for females.
Future improvements to mortality	CMI_2016 with a smoothing parameter of 8.5 and a long term improvement rate of 1.8% pa for males and 1.6% pa for females.	CMI_2014 with a long term rate of 1.5% pa.

The current life expectancies on retirement at age 65 are:

	2018	2017
Males currently aged 65 (years)	**24.5**	24.4
Females currently aged 65 (years)	**26.0**	26.6
Males currently aged 45 (years)	**26.5**	26.5
Females currently aged 45 (years)	**27.8**	29.0

The funding position of the scheme has since been updated on an FRS 102 basis:

	2018	2017
Scheme assets	**£63.6bn**	£60.0bn
Total scheme liabilities	**£72.0bn**	£77.5bn
FRS 102 total scheme deficit	**£8.4bn**	£17.5bn
FRS 102 total funding level	**88%**	77%

In accordance with the requirements of the SORP, the University currently recognises a provision for its obligation to fund past deficits arising within the USS (see note 21). The recovery plan in the 2014 actuarial valuation requires employers to contribute 2.1% of salaries towards repairing the deficit over a period of 17 years, of which 14 years remain. Details of this provision, which has been discounted at a rate of 2.16% as at 31 July 2018, are included in note 21 to the financial statements.

The 2017 actuarial valuation of USS has been undertaken but this has not yet been formerly completed. The 2017 valuation has set out the challenges currently facing the scheme and the likelihood of significant increases in contributions being required to address these challenges.

In the judgement of the University, as the 2017 valuation has not been formally completed, and there remains various stages of consultation around the key factors specifically relating to the funding of the past deficit, including the level of contributions required, the period of the recovery plan and the level of asset performance over the period, it remains appropriate to continue to account for the past deficit obligation in accordance with the plan agreed after the 2014 actuarial valuation.

However, there is a significant risk that the year-end provision as calculated will not reflect the position following the final outcome of negotiations, potentially by a very significant amount depending upon what is finally agreed as regards future deficit contributions and their duration. The University expects to have greater clarity in this respect during the next financial year. Based on the inputs to the model, the following sensitivity analysis outlines the potential impact on the existing liability of £83.1 million (assuming the same discount rate of 2.16%):

- A 1% increase in deficit contributions increases the liability by £37.7m to £120.8m
- An increase of one year duration increases the liability by £7.6m to £90.7m
- An increase in deficit contributions by 3.9% to 6% (duration remains to 2031) increases the liability by £135.1m to £213.7m
- An increase in deficit contributions by 3.9% to 6% (duration extended to 2034) increases the liability by £200.9m to £279.5m
- An increase in deficit contributions by 3.9% to 6% (duration extended to 2039) increases the liability by £320.9m to £399.5m

(b) NHS Pension Scheme

The University of Manchester also participates in the NHSPS which is contracted out of the State Second Pension (S2P). The notional assets of NHSPS are assessed by the Government Actuary and the benefits are underwritten by the Government.

The NHS Pension Scheme is a defined benefit public service pension scheme, which operates on a pay-as-you-go basis. A new reformed scheme was introduced on 1 April 2015 that calculates pension benefits based on career average earnings. Transitional arrangements permit individuals who on 1 April 2012 were within ten years of normal pension age to continue participating in the old 'final salary' NHS Pension Scheme arrangements (the 1995 and 2008 sections).

The scheme is not designed to be run in a way that would enable members to identify their share of the underlying scheme assets and liabilities. Therefore, the scheme is accounted for as if it were a defined contribution scheme: the cost to the NHS Body of participating in the scheme is taken as equal to the contributions payable to the scheme for the accounting period.

An HM Treasury pension scheme valuation for funding purposes was carried out as at March 2012. The Scheme Regulations have been changed to allow contribution rates to be set by the Secretary of State for Health, with the consent of HM Treasury, and consideration of the advice of the Scheme Actuary and appropriate employee and employer representatives as deemed appropriate. The contribution rate payable by the University during the year ended 31 July 2018 was equal to 14.3% of the total pensionable salaries, in accordance with the conclusion of the Government Actuary's report on the scheme.

The total pension cost for the University of Manchester was £2.5m (2017: £2.4m).

Notes to the financial statements (continued)

Year ended 31 July 2018

25 Pension schemes (continued)

(c) University of Manchester Superannuation Scheme

UMSS is a defined benefit scheme in the UK which is contracted out of the State Second Pension (S2P). A new Career Average Revalued Earnings (CARE) section of UMSS was introduced to new joiners from 1 April 2012. Existing members at 1 April 2012 were able to continue in the Final Salary section of the scheme, but also had a one-off opportunity to switch to the new CARE section of UMSS, on 1 April 2012, for future pension build up.

A full actuarial valuation was carried out at 31 July 2016 and this most recent full valuation showed a deficit of £207.4m. The University has agreed with the trustees that it will eliminate the deficit over a period of 17 years and 6 months from 1 August 2017 by the payment of annual contributions of £6.0m per annum, increasing in line with RPI each 1 August. In addition, the University has agreed to pay contributions at the rate of 31.7% of pensionable pay for Final Salary members and 24.4% of pensionsable pay for CARE members who do not participate in PensionChoice plus the appropriate member rate for those that do. Members who do not participate in PensionChoice pay contributions at the rate of 7.50% of pensionable pay for the Final Salary section or 6.50% for the CARE section.

The best estimate of contributions to be paid by the University and its subsidiaries to the scheme for the year commencing 1 August 2018 is £29.0m.

The full actuarial valuation was updated to 31 July 2018 on an FRS 102 (28) basis by a qualified actuary, independent of the scheme's sponsoring employer. The major assumptions used by the actuary are detailed below:

	2018	2017
Discount rate	**2.70%**	2.60%
Inflation (RPI)	**3.20%**	3.20%
Inflation (CPI)	**2.20%**	2.20%
Salary growth	**3.40% for the next two years and then 3.65% thereafter**	3.10% for the first year, then 3.40% for the next two years and then 3.65% thereafter
Allowance for revaluation of deferred pensions of RPI or 5% if less	**3.20%**	3.20%
Allowance for revaluation of deferred pensions of CPI or 5% if less	**2.20%**	2.20%
Allowance for pension in payment increases of RPI or 5% if less	**3.10%**	3.10%
Allowance for pension in payment increases of CPI or 5% if less	**2.10%**	2.10%
Allowance for commutation of pension for cash at retirement	**No allowance**	No allowance

The mortality assumptions adopted imply the following life expectancies:

	2018	2017
	Life expectancy at age 62	Life expectancy at age 62
	Years	Years
Male retiring in 2018	**24.5**	24.6
Female retiring in 2018	**26.4**	26.5
Male retiring in 2038	**25.6**	25.8
Female retiring in 2038	**27.7**	27.8

The assets and liabilities within the scheme at 31 July were as follows:

	2018	2017	2016
	£'000	£'000	£'000
Equities	**237,993**	215,350	188,409
Bonds	**253,751**	220,460	192,257
Property	**117,053**	119,220	117,973
Fair value of scheme assets	**608,797**	555,030	498,639
Present value of defined benefit obligation	**(741,580)**	(730,987)	(694,386)
Deficit in the scheme	**(132,783)**	(175,957)	(195,747)

The pension scheme has not invested any of the University's own financial instruments or in properties or other assets used by the group.

The amounts recognised in the group statement of comprehensive income and expenditure are analysed as follows:

	2018 £'000	2017 £'000
Recognised in Statement of Comprehensive Income:		
Current service cost	25,907	22,915
Expenses	1,301	1,208
Total operating charge	27,208	24,123
Net interest cost	4,583	5,068
Total recognised in surplus for the year	31,791	29,191
Taken to Other Comprehensive Income:		
Return on scheme assets (excluding amounts included in net interest cost)	31,111	34,319
Experience gains and losses	(1,575)	22,342
Remeasurements - changes in demographic and financial assumptions	19,267	(33,095)
Total amount recognised in Other Comprehensive Income	48,803	23,566

Reconciliation of opening and closing balances of the defined benefit obligation	2018 £'000	2017 £'000
At start of year	730,987	694,386
Current service cost	25,907	22,915
Expenses	1,301	1,208
Interest expense	19,119	18,149
Contributions by scheme participants	805	821
Actuarial (gains)/losses	(17,692)	10,753
Benefits paid	(18,847)	(17,245)
At end of year	741,580	730,987

Reconciliation of opening and closing balances of the fair value of scheme assets	2018 £'000	2017 £'000
At start of year	555,030	498,639
Interest income	14,536	13,081
Actuarial gains	31,111	34,319
Contributions by the University and subsidiaries	26,162	25,415
Contributions by scheme participants	805	821
Benefits paid	(18,847)	(17,245)
At end of year	608,797	555,030

The actual return on the scheme assets over the year ended 31 July 2018 was £45.6m.

Sensitivity analysis

As set out in the accounting policies, there are some critical judgements made in estimating the UMSS pension liability. The sensitivity of the principal assumptions used to measure the scheme liabilities are set out below:

Change in assumptions at 31 July 2018	**Approximate impact**
0.1% pa decrease in discount rate	2% or £14.8m increase in liability
0.1% pa increase in inflation linked assumptions	2% or £14.8m increase (of inflation linked liabilities)
One year increase in life expectancy	2% or £14.8m increase in liability

25 Greater Manchester Pension Fund (GMPF)

The GMPF is a final salary defined benefit scheme and a separate fund within the local government pension scheme (LGPS) which is contracted out of the State Second Pension (S2P). The LGPS is regulated by statute, with separate regulations for England and Wales and for Scotland. The benefits of LGPS funds are determined nationally by regulation and meet the definition of a defined benefit scheme. LGPS is a funded scheme, with some 100 separate funds administered locally by administering bodies. Each fund has many employing authorities. The LGPS is not therefore a national multi-employer scheme, but each separate LGPS fund is a multi-employer scheme. The University of Manchester is a member of one of these funds, the GMPF, which is administered by Tameside Metropolitan Borough Council.

A full actuarial valuation was carried out at 31 March 2016 and this most recent full valuation showed a deficit of £1,371m for all members and a funding level of 93%. The University currently pays contributions at a rate of 22.9% of pensionable pay and annual additional contributions towards the deficit of £729k 2017/18, £750k 2018/19 and £771k for 2019/20. The contribution rate of 22.9% remains unchanged for the year commencing 1 August 2018.

The best estimate of contributions to be paid by the University and its subsidiaries to the scheme for the year commencing 1 August 2018 is £1.7m.

The full actuarial valuation was updated to 31 July 2018 on an FRS 102 (28) basis by a qualified actuary, independent of the scheme's sponsoring employer. The major assumptions used by the actuary are detailed below:

	2018	2017
Discount rate	**2.70%**	2.60%
Inflation (RPI)	**3.20%**	3.20%
Inflation (CPI)	**2.20%**	2.20%
Salary growth	**3.60%**	3.60%
Pension increase rate	**2.20%**	2.20%

The mortality assumptions adopted imply the following life expectancies:

	2018 Life expectancy at age 65 Years	2017 Life expectancy at age 65 Years
Male future pensioners	**23.7**	23.7
Female future pensioners	**26.2**	26.2
Male current pensioners	**21.5**	21.5
Female current pensioners	**24.1**	24.1

The assets and liabilities within the scheme at 31 July were as follows:

	2018 £'000	2017 £'000	2016 £'000
Fair value of scheme assets	**125,562**	117,287	107,984
Present value of defined benefit obligation	**(131,358)**	(133,475)	(131,790)
Deficit in the scheme	**(5,796)**	(16,188)	(23,806)

The split of assets by type is as follows:	**2018**	2017	2016
Equities	**68%**	72%	73%
Bonds	**16%**	16%	17%
Property	**7%**	6%	5%
Cash	**9%**	6%	5%

The pension scheme has not invested any of the University's own financial instruments or in properties or other assets used by the group.

The amounts recognised in the group statement of comprehensive income and expenditure are analysed as follows:	2018	2017
	£'000	£'000
Recognised in Statement of Comprehensive Income:		
Current service cost	1,362	1,455
Past service cost	37	62
Total operating charge	1,399	1,517
Net interest cost	366	562
Total recognised in surplus for the year	1,765	2,079

The current service cost includes an allowance for administration expenses of 0.3% (2017: 0.2%) of payroll

Taken to Other Comprehensive Income:		
Return on scheme assets (excluding amounts included in net interest cost)	7,867	8,968
Remeasurements - changes in demographic and financial assumptions	2,496	(9,031)
Other experience	-	7,857
Total amount recognised in Other Comprehensive Income	10,363	7,794

Reconciliation of opening and closing balances of the defined benefit obligation	2018	2017
	£'000	£'000
At start of year	133,475	131,790
Current service cost	1,362	1,455
Past service cost	37	62
Interest expense	3,380	3,336
Contributions by scheme participants	272	299
Contributions by the employer to the unfunded scheme	(150)	(138)
Actuarial (gains)/losses	(2,496)	1,174
Benefits paid	(4,522)	(4,503)
At end of year	131,358	133,475
Analysis of defined benefit obligation		
Present value of funded liabilities	129,499	131,542
Present value of unfunded liabilities	1,859	1,933
	131,358	133,475

Reconciliation of opening and closing balances of the fair value of scheme assets		
At start of year	117,287	107,984
Interest income	3,014	2,774
Actuarial gains	7,867	8,968
Contributions by the University	1,644	1,765
Contributions by scheme participants	272	299
Benefits paid	(4,522)	(4,503)
At end of year	125,562	117,287

The actual return on the scheme assets over the year ended 31 July 2018 was 9.4%

Sensitivity analysis

As set out in the accounting policies, there are some critical judgements made in estimating the GMPF pension liability. The sensitivity of the principal assumptions used to measure the scheme liabilities are set out below:

Change in assumptions at 31 July 2018	Approximate impact
0.5% pa decrease in discount rate	11% or £14.1m increase in liability
0.5% pa increase in salary increase rate	2% or £2.4m increase in liability
0.5% pa increase in pension increase rate	9% or £11.5m increase in liability

The principal demographic assumption is the longevity assumption (i.e. member life expectancy). For sensitivity purposes it is estimated that a one year increase in life expectancy would increase the University's liability by around 3% - 5%.

Notes to the financial statements (continued)

Year ended 31 July 2018

26 Reconciliation of cash flow to the Balance Sheet

	At 1st August 2017 £'000	Cash Flows £'000	At 31st July 2018 £'000
Cash and cash equivalents	135,616	(75,332)	**60,284**
	135,616	(75,332)	**60,284**

27 Capital and other commitments

Provision has not been made for the following capital commitments at 31 July 2018:

	Consolidated		University	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Authorised not contracted for	**180,716**	762,389	**180,716**	762,389
Contracted not provided	**492,948**	71,337	**492,948**	71,337
	673,664	833,726	**673,664**	833,726

28 Lease obligations

Renewals are at the option of the lessee. Future minimum lease payments due under finance leases and hire purchase contracts comprise:

			2018	2017
	Land & Buildings	**Other Leases**	**Total**	Total
	£'000	**£'000**	**£'000**	£'000
Payable during the year	16,670	831	**17,501**	13,911
Future minimum lease payments due:				
Not later than 1 year	16,877	821	**17,698**	13,870
Later than 1 year but not later than 5 years	17,675	2,721	**20,396**	18,579
Later than 5 years	9,142	347	**9,489**	10,024
Total lease payments due	43,694	3,889	**47,583**	42,473

29 Contingent liabilities

	Consolidated		University	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Guarantees				
Bank guarantees	230	230	-	-

The bank guarantee relates to a guarantee given by UMIST Ventures Ltd. (a wholly owned subsidiary) in respect of one of the University's spin-outs.

30 Related party transactions

The operating statements of the University include transactions with related parties. In accordance with FRS102 these are disclosed where members of the University of Manchester's Board of Governors disclose an interest in a body with whom the University undertakes transactions which are considered material to the University's Financial Statements and/or the other party. Due to the nature of the University's operations and the composition of the Board, being drawn from local public and private sector organisations, it is inevitable that transactions will take place with organisations in which a member of the Board may have an interest. All transactions involving organisations in which a member of the Board may have an interest, including those identified below, are conducted at arms length and in accordance with the University's Financial Regulations and usual procurement procedures.

An updated register of the interests of the members of the Board of Governors is maintained.

The University has taken advantage of the exemption within FRS 102 and has not disclosed transactions with other group entities where it holds 100% of the voting rights. Included within the financial statements are the following transactions with related parties:

	Income recognised within the financial statements	Expenditure recognised within the financial statements	Balance due to the University recognised within the financial statements	Balance due from the University recognised within the financial statements
	£'000	£'000	£'000	£'000
Engineering and Physical Sciences Research Council (EPSRC)	82,530	-	1,943	-
Bruntwood Group Limited	-	37,513	-	1,373
Cancer Research UK	26,548	-	41	1,557
Manchester University NHS Foundation Trust	13,314	5,848	2,547	1,836
Medical Research Council (MRC)	15,478	8	843	-
Salford Royal NHS Foundation Trust	6,093	2,924	803	1,783
AstraZeneca plc	3,298	4,218	503	111
University of Liverpool	3,186	3,076	2,264	367
The Royal Society	3,508	104	172	342
Northern Health Science Alliance (NHSA)	2,892	18	400	-
Imperial College London	1,657	854	389	50
GlaxoSmithKline plc (GSK)	1,988	-	96	-
BP plc	1,950	-	25	-
University of Manchester Students' Union	1,278	669	1,062	67
University of Newcastle upon Tyne	433	1,238	14	30
BT Group plc	19	1,217	-	39
Teach First	1,158	-	247	-
NorthWest Ehealth Ltd	69	884	222	-
Kings College London	268	488	172	2
Office for Nuclear Regulation (ONR)	623	-	94	-
Department for Education (DfE)	434	-	1	-
Department for International Trade	337	12	-	-
UNIAC	1	335	-	-
Royal Academy of Engineering	319	8	-	3
Ernst & Young LLP (EY)	3	151	-	24
Transport for Greater Manchester (TfGM)	3	131	-	10
Association of Heads of University Administration	101	18	8	17
University of Central Lancashire (UCLAN)	13	101	-	54
	167,501	**59,815**	**11,846**	**7,665**

Notes to the financial statements (continued)

Year ended 31 July 2018

30 Related party transactions (continued)

Engineering and Physical Sciences Research Council (EPSRC)

The Engineering and Physical Sciences Research Council (EPSRC) is the main funding body for engineering and physical sciences research in the UK. One member of the Board of Governors is a panel member of this body.

Bruntwood Group Limited

Bruntwood is a property company offering office space, serviced offices, retail space and virtual offices. One member of the Board of Governors has declared Bruntwood as a client.

Cancer Research UK

Cancer Research UK is a registered charity, whose aim is to reduce the number of deaths from cancer. As the world's largest independent cancer research charity it conducts research into the prevention, diagnosis and treatment of the disease. Research activities are carried out in institutes, universities and hospitals across the UK, both by the charity's own employees and by its grant-funded researchers. One member of the Board of Governors is a member of this body.

Manchester University NHS Foundation Trust

The Manchester University NHS Foundation Trust formed when the University of South Manchester and Central Manchester University Hospitals NHS Foundation Trusts merged on 1 October 2017.

The Trust runs Altrincham Hospital, Manchester Royal Infirmary, Royal Eye Hospital, Royal Manchester Children's Hospital, St Mary's, Trafford General Hospital , Withington Community Hospital, Wythanshawe Hospital, and the University Dental Hospital. It works closely with the University in the teaching of medical students, as well as research. A member of the University's Senior Leadership Team is a non-executive director of the Trust.

Medical Research Council (MRC)

The Medical Research Council aims to improve human health through world-class medical research. They support research across the biomedical spectrum and in all major disease areas. One member of the Board of Governor chairs an MRC Committee.

Salford Royal NHS Foundation Trust

The Trust is based in Salford, a few miles from the University, where it provides NHS hospital services. It works closely with the University in the teaching of medical students. One member of the Board of Governors has declared the Trust as a client.

AstraZeneca plc

AstraZeneca is a global integrated biopharmaceutical Company. One member of the Board of Governors is an employee of the company, and another member of the Board and a member of the Senior Leadership Team have declared they are former employees and members of the AstraZeneca pension fund.

University of Liverpool

The University of Liverpool is a research university. One member of the Board of Governors is a member of an Institute of that university.

The Royal Society

The Royal Society is a fellowship of many of the world's most distinguished scientists. Its purpose is to recognise, promote, and support excellence in science and to encourage the development and use of science for the benefit of humanity. One member of the Board of Governors is a Fellow of the Society, while another is a member of one of the Society's Committees.

Northern Health Science Alliance (NHSA)

The Northern Health Science Alliance provides one access point to the health science ecosystem in the North of England creating a simple way for organisations to access the resources and expertise available in eight major cities. One member of the University's Senior Leadership Team is the Chair of the NHSA.

Imperial College London

Imperial College London is a university specialising in teaching and research in science, engineering and medicine. One member of the Board of Governors is a Visiting Professor at the College.

GlaxoSmithKline plc (GSK)

GSK is a major pharmaceutical company. One member of the Board of Governors acts as a consultant for the company.

BP plc

BP is a major company involved in oil and natural gas exploration, field development and production. The Company also has a division focused on fuels, lubricants and petrochemicals. One member of the Board of Governors is employed by the company.

University of Manchester Students' Union

The University of Manchester Students' Union is the representative body for students at the University of Manchester. The General Secretary of the Union is an ex-officio member of the Board of Governors.

University of Newcastle on Tyne

The University of Newcastle on Tyne is a university in the North East of England. One member of the Board of Governors chairs a unit there.

BT Group plc

BT is the UK's largest telecommunications company, providing broadband, landline, mobile phone and TV services. One member of the Board of Governors is a Non-Executive Director of the BT Equality of Access Board.

Teach First

Teach First is a social enterprise which aims to address educational disadvantage. One member of the Board of Governors is the organisation's Executive Director of Human Resources.

Northwest eHealth

Northwest eHealth Ltd provide the pharmaceutical industry with an alternative approach to clinical trial design and management. A member of the University's Senior Leadership Team is a non-executive Director of the company.

King's College, London

King's College London is a research university and a college of the University of London. One member of the Senior Leadership Team is an external subject advisor at the college.

Office for Nuclear Regulation (ONR)

The Office for Nuclear Regulation is the body responsible for regulation of nuclear safety and security across the UK. One member of the Board of Governors is a member of the ONR Technical Committee.

Department for Education (DfE)

The Department for Education is a department of Her Majesty's Government responsible for child protection, education, apprenticeships and wider skills in England. One member of the Board of Governors has declared the Department as a client.

Department for International Trade

The Department for International Trade is a United Kingdom government department responsible for striking and extending trade agreements between the United Kingdom and non EU states. One member of the Board of Governors has declared the Department as a client.

UNIAC

UNIAC is a shared internal audit service owned by a consortium of higher education institutions, including the University of Manchester. One member of the Senior Leadership Team is a member of the UNIAC board.

Royal Academy of Engineering

The Royal Academy of Engineering is the UK's national academy of engineering. One member of the Board is a Fellow of the Academy, while another member chairs a Committee there.

Ernst & Young LLP (EY)

EY are a major provider of accountancy services and the University's external auditors. A member of the Senior Leadership Team has declared that a family member works for the company. The family member is not involved with the audit of the University and is not a threat to the independence of the audit.

Transport for Greater Manchester (TfGM)

Transport for Greater Manchester is the public body responsible for co-ordinating transport services throughout Greater Manchester. One member of the Board of Governors has declared TfGM as a client.

Association of Heads of University Administration

The Association of Heads of University Administration (AHUA) is the representative body for senior University managers in the United Kingdom. One member of the Senior Leadership Team is a member of the AHUA Executive.

University of Central Lancashire (UCLAN)

The University is based in Preston and offers a range of under and post graduate degrees and undertakes research. One member of the Board of Governors is a visiting professor and a member of the institution's Audit Committee.

Members of the Board of Governors' Expenses

£11,672.64 was paid in expenses to members of the Board of Governors of the University during the year (2017: £18,136.12). Where members of the Board are also employees of the University the amount includes expenses paid in relation to their employment.

Notes to the financial statements (continued)

Year ended 31 July 2018

31 Events after the reporting period

As a result of a High Court decision on 26 October 2018, pension schemes which have members with Guaranteed Minimum Pensions (GMPs) must take action to address inequalities in those GMPs if they were contracted-out of the State scheme between 1978 and 1997. The University considers it is likely that this will ruling will impact all of the defined benefit schemes in which it is a participating employer and may result in the recognition of additional liabilities. As a consequence of this ruling, trustees of pension schemes will need to consider the integrity of their pension scheme data, the adjustments to benefits that may be necessary and any implications for scheme liabilities and funding. The High Court ruling on 26 October 2018 creates an obligation on that date for the Trustees to amend the scheme rules to reflect the consequences of the ruling. Therefore this is considered to be a non-adjusting event after the reporting period. The calculation of any additional liabilities will be a complex and lengthy process and as such the financial effect of any adjustment that may arise cannot be estimated at this stage. Any adjustment will be reflected in the Financial Statements for the year ended 31 July 2019.

32 Amounts disbursed as agent (Consolidated and University)

The National College for Teaching and Leadership (formerly the Training and Development Agency for Schools (TDA))

Student Training Bursaries	**2018**	2017
	£'000	£'000
Balance unspent at beginning of year	**206**	107
Funding Council grants	**3,763**	3,771
Disbursed to students	**(3,896)**	(3,672)
Balance unspent at year end	**73**	206

Funding Council grants are available solely for students. The University acts only as a paying agent. The grants and related disbursements are therefore excluded from the Income and Expenditure account.

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Created by the Division of Communications and Marketing

Royal Charter Number RC000797
M2417 11.18